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GENERAL

Yu Haocheng Discusses Human Rights
40050186 Beijing SHIJIE ZHISHI [WORLD
AFFAIRS] in Chinese No 23, 1 Dec 88 pp 2-5

[Article by Yu Haocheng 0060 3185 2052: "Protection of Human Rights Is a Just Cause in the Advance of Mankind: In Commemoration of the 40th Anniversary of the United Nation's Universal Declaration of Human Rights"; first paragraph is source-supplied abstract]

[Excerpts] *"Human rights have always been 'Man-given,' not 'God-given.' Such concepts as human rights, humanitarianism, human nature, personal integrity, freedom, equality, universal fraternity, and the like should not be handed to the bourgeoisie on a silver platter. The proletariat and socialist nations have the full right to and should justly and forcefully raise the banner of human rights and fight to defend the people's democratic rights.*

10 December of this year is the 40th anniversary of the passage by the United Nations General Assembly of the Universal Declaration of Human Rights. The Declaration starts right off by proclaiming that "All human beings are born free and equal in dignity and rights"; sets forth in 30 articles citizen, political, economic, social and cultural rights; and declares that all nations should strive to promote and honor these rights and to make the rights universally accepted. The citizen and political rights enumerated by the Declaration include the rights to life, liberty and security of person. Everyone has the right to recognition as a person before the law and the right to judicial remedy and fair trial; to leave any country, including his own; and to marry, to establish a family and to own property. The Declaration also proclaims the rights to freedom of thought, conscience, religion, opinion, expression of opinion, assembly, and participation in the government of one's country. The Declaration further proclaims that everyone, "as a member of society," has economic, social and cultural rights which include the right to work and to receive equal pay for equal work, to education, to rest and leisure, to social security and an adequate standard of living, and to participate in the cultural life of his community.

Over the last 40 years, the people of all countries of the world, including China, and UN organizations have done much work to promote and give honor to the protection of human rights; to oppose genocide, Nazism and war crimes; to eradicate racial prejudice and segregation; to protect the rights and interests of women and children; and to protect prisoners and detainees from torture or from other forms of cruel and inhumane treatment. On balance, the world we live in is growing ever more progressive and wonderful, and the great wheel of the age is driving mankind ever more rapidly down the road from barbarism to civilization. [passage omitted]

The Slogan of Protecting Human Rights Is By No Means Passé

To free mankind from terror is to protect human rights. In China, this means fully realizing and effectively protecting constitutionally-mandated freedoms and rights to person, of speech, of publication, of assembly, of association, to march, to demonstrate, of religious belief, to scientific research, of literary and artistic creation, and to engage in other cultural activities. Although the issue of human rights is a popular topic in international politics, it has been almost totally off-limits in China. During the 1950s, CPC documents and leaders did raise the issue. For example, at a national joint conference of provincial procurators, judges, and public security bureau chiefs in 1956, Zhou Enlai said, "Humanitarianism applies to persons who have been tried according to law. The question of whether or not these persons have been tried correctly is an issue of human rights and of legality." He added, "Toward people who are criminals, who have had death sentences suspended, who are undergoing reform through labor, or who have been placed under supervision by the masses, the first thing we must do is be humanitarian. Inhumane treatment is wrong and should be corrected whenever it occurs. On this point, our legal organs must conduct regular investigation of conditions in their jurisdictions, especially of reform-through-labor teams. If the situation is bad, it must be corrected." In February 1957, Dong Biwu reported to the Fourth Session of the First NPC, "Corruption, theft, fights, noise disturbances, as well as human rights violations are quite prevalent in the countryside." Nevertheless, since the late 1950s, the question of protecting human rights has rarely been raised, and the serious violations that occurred during the 10 years of chaos of the Cultural Revolution make one bristle with anger. Even the rights of the state chairman received no protection whatsoever. Liu Shaoqi died tragically in Kaifeng, Henan after suffering all kinds of torture including denunciation, confiscation of his family's property, being forced to suffer the "jet propulsion" treatment, beatings and kickings and illegal incarceration. CPC member Zhang Zhixin [1728 1807 2450] was arrested, incarcerated, and secretly executed—with his throat cruelly cut before the execution—for the alleged crime of making "poisonous attacks," when all he really did was to stick to his political views. Such examples abound. Yet some people among us try to claim that there are absolutely no human rights problems in China. Articles "criticizing human rights" appeared in China's newspapers in 1979 claiming that the issue of human rights is the slogan of the bourgeoisie, not the proletariat. And in 1983 a wave of criticism was directed toward "humanitarianism." These mistaken views have greatly impeded China's democratic development. Yet the "Resolutions Concerning the Guiding Principles of Socialist Spiritual Development" passed by the 6th plenum of the 12th CPC Central Committee explicitly stated, "The principal historical lessons of China's socialist development are that she has failed to concentrate her forces on economic development and to effectively build democracy." The situation is precisely as

"An Account of a Visit with Xia Yan" described it: "The revered Mr Xia maintains his own views on 'man.' He is critical of the view that socialist countries do not emphasize human rights and the fact that any word containing 'man' in these countries is taboo. Words like human rights, human nature, personal integrity [literally, human character], and humaneness are all verboten. And Zhou Yang was condemned for using the word 'humanitarianism.' But these things are the basic elements of democracy! Now no one dares to talk even about human rights; freedom, equality, universal fraternity are criticized as bourgeois; and advocacy of creative freedom in art will get one 'rectified.' Is it any wonder that Reagan uses this issue against Gorbachev? Should we not step back and carefully ponder this problem? China's goal now is to develop production forces, but the most revolutionary and active factor in this process—man—has long been the most neglected element in our country. This oversight has led to many abuses."

China is a signatory of the Declaration, and over the past few years her representatives have done much useful work in the United Nations and at other international conferences and are beginning to shed their aversion to discussion of human rights abuses. Some international conferences have recognized protection of human rights as a universal principle in international law. The practice of using outside interference in one's own internal affairs as an excuse to refuse to discuss human rights conditions in one's own country is no longer credible. If human rights is an internal affair, why does the international community continually condemn South Africa for racial discrimination? Cannot South Africa use the same pretext to refuse outside interference in her domestic affairs? Actually, in the area of human rights issues, we [China] would be fully justified in making such a refusal. First, we could point out that some foreigners have no right to prate about protecting human rights. Foreign aggressors once helped warlords, bureaucrats, compradors and landlords slaughter tens of thousands of working Chinese people. And on the gates of parks in old Shanghai used to hang signs reading "No dogs or Chinese." Since the Chinese people were subjected to such humiliation, what human rights are there left to talk about? And what right do hostile foreign powers have to talk about human rights problems in China? Second, it should be pointed out that the human rights outrages that occurred during the Cultural Revolution and some of the infringement that still persists are not caused by the socialist system itself but in fact run exactly counter to socialist principles and that whenever such violations are discovered our party and government always take steps to correct them. In September of this year, the NPC Standing Committee approved the Convention Prohibiting Use of Torture or Other Forms of Cruel, Inhumane or Humiliating Treatment or Punishment, which China has signed and actively helped draft, because the Convention's basic spirit and major elements are consistent with China's Constitution, criminal law, Criminal Code

Procedural Law, other domestic legislation, and current policy and entirely accords with China's consistent stand on respect for human rights and humanitarianism.

It should be acknowledged that it is impossible to establish a perfect, blemish-free socialist system right off the bat, that the system must continuously be improved as we go along; that imperfections remain in our socialist superstructure; that defects still plague certain links in the state system; that our legal system is incomplete; and thus that the people's democratic rights sometimes cannot reliably be protected and may even be seriously infringed upon by domestic counterrevolutionary forces, sometimes disastrously so, as when Lin Biao and the "Gang of Four" ran amok with their feudal-fascist dictatorship. Thus we not only cannot deny that human rights problems exist in our country but *should also face up to reality, continuously improve our socialist system, accelerate reform of our political system, strengthen democracy, perfect our legal system, and wage a determined struggle against violations of the legal system and of human rights. These efforts are necessary if China is to join the ranks of civilized nations of the world.*

It should also be pointed out that Third World nations have raised new demands with respect to the human rights issue, arguing that *human rights should include not only the rights and basic freedoms of individuals but also those of nations.* The Third World advocates that UN human rights activities should give priority to the resolution of the problem of the massive, serious violations of human rights that occur among nations and should seek to eliminate massive, serious infringement of the rights of both nations and individuals that results from racial segregation and all forms of racial discrimination; from colonialism; from foreign control, occupation and aggression; from threats to national sovereignty, unity and territorial integrity; and from refusal to recognize national self-determination and the full sovereignty of nations over their own wealth and natural resources. The Third World emphasizes from an international perspective protection of the collective rights of nations and peoples and links the struggle to protect human rights to the fight against aggression, the fight for national independence, the fight against international exploitation and the fight to develop national economy. The Third World argues that we must first and foremost curb such phenomena as racism, colonialism, fascism and imperialism. Clearly, this proposition is a new, positive and progressive development in human rights. However, if we fully, objectively and fairly examine the issue, we cannot but agree with the following proposition: The various human rights are inseparable and interdependent. We must accord equal attention and equal consideration to both citizen-political rights (which are sometimes called "individual rights") and collective rights, or economic, social and cultural rights.

The Marxist View of Human Rights

What are human rights? Human rights are the rights of all humans, without regard to ethnicity, race, creed,

nationality, sex, age and other such distinctions, especially class. Human rights apply to all humans and are universal. Thus Marx and Engels called human rights the "most universal form of rights." Some people do not accept the idea that there is a universal human nature or that there are universal rights that apply to all men. Such people often base their arguments on the following passage from Mao Zedong's "Talks at the Yenan Forum on Literature and Art": "Is there such a thing as human nature? Of course there is. But there is only human nature in the concrete and no human nature in the abstract. In a class society there is only human nature of a class character; there is no human nature transcending classes." But in fact Mao Zedong himself said as early as 10 October 1937, in a letter to Lei Jingtian, that in shooting Liu Qian to death, Huang Kegong "has lost the stand of the party, the stand of the revolution and the stand of mankind." (Note: Huang was a party cadre who killed Liu Qian, a student in the North Shaanxi Public School who had refused Huang's effort to force her to marry him.) Thus Mao Zedong affirmed the existence of universal human nature. As to the question of whether or not universal human rights exist, it would seem that we should adopt this view [that human nature does exist].

The slogan of "human rights" was raised by the bourgeoisie in its struggle against feudalism. To achieve freedom to develop capital and exploit the labor force and to smash the fetters of religious authority, the bourgeoisie demanded the rights of freedom and equality. The advancement of the idea of "God-given rights" by bourgeois Enlightenment thinkers during the 18th century reflected this demand. For example, John Locke (1632-1704) of England claimed that "Mankind is created free, equal and independent" and that no man "may violate the life, health, freedom or property of other persons." Jean Jacques Rousseau (1712-1778) of France stressed that "Each person is born free and equal" and that "giving up one's freedom means abandoning one's status as a human being and relinquishing the rights of mankind." The theory of God-given rights was an ideological weapon that the ascendant bourgeoisie used in the democratic revolution that class launched against feudal despotism in alliance with the proletariat. Human rights were the principal slogan in this revolution and formed a basic element of the political program of the bourgeoisie. In 1775, the North American colonies launched a war for independence, and on 4 July 1776 representatives of these 13 colonies sitting in the Continental Congress passed the Declaration of Independence, which was drafted by Thomas Jefferson and proclaimed the independence of the 13 colonies from England and the establishment of the United States of America. The declaration also proclaimed that "all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are Life, Liberty and the pursuit of Happiness." This declaration for the first time established the principle of human rights in a political program, and Marx called it "the first declaration of human rights." In 1789, the National Assembly, which was established during the

French Revolution, passed the Declaration of the Rights of Man and Citizen, which for the first time explicitly raised the slogan "human rights" and was incorporated into the preamble of the constitution that was drawn up by the National Assembly in 1791. This constitution for the first time fixed in the form of law the principles of freedom and equality that the bourgeois Enlightenment thinkers had championed.

At that time, the slogan of human rights primarily reflected the economic interests and political demands of the rising bourgeoisie, for when capitalist development reached a certain stage, a sharp contradiction occurred between that development and feudalism, and feudal society, with its various privileges, became a serious impediment to the continuation of that development. In this fashion, demands for the elimination of feudal inequalities and for the establishment of the principles of equal rights and freedom of activity were placed on the agenda, just as Engels described: "When economic relations came to require freedom and equal rights, the political system, with its guild restrictions and special privileges, became antithetical to these rights at every step.... As soon as the economic advance of society placed demands on the agenda for removal of feudal shackles and for elimination of feudal inequalities so as to establish equal rights, these demands necessarily were rapidly broadened, for although the demands were raised in the interests of industry and commerce, similar equality had to be demanded for the mass of the peasantry. Peasants suffered varying degrees of servitude, even outright slavery. They had to give a very large portion of their labor time to their benevolent feudal lord without compensation and also had to pay innumerable quitrents to the lord and the state. In other spheres, the bourgeoisie additionally had to demand abolition of feudal special privileges, tax exemptions for the aristocracy and special political powers for certain social ranks. And since people no longer lived in a world empire like that of Rome but rather in a system comprised of independent states that interacted on a equal footing and that were at approximately the same stage of bourgeois development, the demands naturally became universal and supranational in character, so freedom and equality, too, were naturally proclaimed to be the rights of all humans." Thus the free and equal paradise envisioned by Locke, Rousseau and other Enlightenment thinkers was merely a bourgeois utopia. Nevertheless, the opposition to the special privileges of the feudal aristocracy and landlords, the demands for freedom from personal bondage to feudal lords, and the call for liberation of the individual doubtless were very revolutionary and progressive. As Lenin put it, "World capital has taken up the task of engendering freedom, overthrown feudal servitude and created bourgeois freedoms. We clearly see that this represents an advance of great significance in world history."

As stated above, the atrocities committed by the German, Italian and Japanese fascists in World War II incurred the wrath of all peoples of the world and

prompted these peoples universally to demand human rights. The UN Declaration of 1942 and the UN Charter of 1945 unequivocally demanded protection of human rights. And the Universal Declaration of Human Rights passed by the UN General Assembly 10 December 1943 [as published] concretely defined individual freedoms and individual political rights, as well as social, economic, cultural and other rights; reflected the opposition of all peoples of the world to tyranny and their common desire for peace and democracy after the war; marked a great step forward; and had a major impact internationally. Many country's constitutions or declarations affirm all the principles or quote some of the articles of the Declaration, and major international conferences regularly mention the Declaration. For example, the section entitled "Human Rights and Self-Determination" in the final communique issued by the Bandung Conference in 1954 stated: "The Asian-African Conference declares complete support for the basic principles of human rights contained in the UN Charter and takes note of the Universal Declaration of Human Rights, which sets forth the standards that all nations and all peoples are striving to achieve."

How should the proletariat and masses of people approach the slogan of human rights? Of course, the concept of human rights advocated by the bourgeoisie is incomplete. In its fight against feudalism, the bourgeoisie posed as the spokesman for all the people, championed "human rights," and claimed that freedom and equality are shared by everyone. In reality, however, the human rights advocated by the bourgeoisie by no means apply to all people—only the rights of the bourgeoisie are the real McCoy. In capitalist society, all means of production are appropriated by the bourgeoisie; that class has the right freely to exploit and to enslave the proletariat, which owns nothing and enjoys only the right freely to sell its labor; and the bourgeoisie and the proletariat are equal only superficially and in name. In reality, all the bourgeoisie did was to supplant feudal privilege with the privilege of money. The class nature of "human rights" was thoroughly exposed by the great teachers of the proletariat. Engels argued that "the principal right [the bourgeoisie] proclaimed was its right to property." And Lenin averred, "Even in the most free and democratic republics, 'freedom' and 'equality' can only be and always have been the equality and freedom of commodity owners, the equality and freedom of capital." Thus the proletariat must absolutely not confine itself to the slogan of and demand for human rights but must raise its own demands and standards, namely the establishment of proletarian democracy and the achievement of socialism and communism. Engels said that "the real content of the proletarian demand for equality is the destruction of classes." And Lenin said, "The proletariat must destroy classes—this is proletarian democracy and the true component of proletarian freedom (freedom from capitalists and freedom from commodity exchange) and proletarian equality (not class equality ... but equality of workingmen who overthrow capital and capitalism)." Nevertheless, we must by no

means conclude from these words of the great teachers of the proletariat that the proletariat and masses of people should abandon and categorically reject the slogan of human rights, hand the slogan over to the bourgeoisie on a silver platter, and let that class treat human rights as its monopoly. Human rights have never been "God-given" but are "Man-given." And although the slogan of universal human rights was raised and is used by the bourgeoisie, the proletariat can use the slogan, too. The proletariat and the masses of people fully can and should demand that the bourgeoisie make good on its slogan, and use the slogan of human rights that the bourgeoisie raised in its fight against feudal forces as a powerful weapon in the fight against the bourgeoisie itself. As Engels said, "The proletariat has seized the words of the bourgeoisie: Equality should not be superficial and confined to the realm of the state but should be real and be implemented in social and economic spheres. Significantly, when the French bourgeois revolution began to give prominence to citizen equality, the French proletariat countered with demands for social and economic equality, which notions became a struggle slogan unique to the French proletariat." Lenin elevated the struggle slogan of human rights to a position determining the success or failure of socialist revolution. Before the October Revolution, he stated, "When proclaimed or carried out under capitalism, all democratic systems effect very few rights or attach strings to those rights [they do effect]. Socialism cannot be achieved if these rights are not proclaimed, if one does not fight for them, and if this fight is not used to educate the masses." The problem lies in the fact that, even though rights like freedom and equality are, as Engels put it, "purely democratic demands," and so the proletariat must not confine itself to these slogans and demands but must raise its own, higher demands and goals—namely, achieving socialism and communism, socialism and communism can never be realized if one does not first pass through democracy and humanitarianism, which form precisely that historical stage in social development that cannot be skipped. This is especially important for many countries, like the Soviet Union and China, which moved directly from feudal or semifeudal colonial societies to socialism without having passed through the stage of capitalist democratic revolution. The historic tragedies of Stalin's destruction of the socialist system, his commission of many injustices, and the human rights outrages that occurred in China's "Cultural Revolution" alone provide sufficient evidence of the importance and urgency of the continued fight by the party and the people for human rights. The facts of history have long since shown who it is that really benefits from the preposterous criticism of human rights and humanitarianism contained in "leftist" prattle and bluster.

Today, as we commemorate the 40th anniversary of the UN's Universal Declaration of Human Rights, we must raise the banner of human rights and justly, forcefully and unflinchingly fight for and protect the democratic

rights of the people so that the important principles, such as liberty, equality and security, proclaimed in the Declaration are carried out in every corner of the world.

SOVIET UNION

Report on Shevardnadze Re-Examination of Soviet Diplomatic Relations

40050144b Shanghai SHIJIE JINGJI DAOBAO
in Chinese 5 Dec 88 p 4

[Translated abstract of report delivered by Eduard Shevardnadze to the Conference on Science and Practice of the Soviet Foreign Ministry, originally published in the Soviet magazine INTERNATIONAL LIFE: Shevardnadze Elaborates on Re-Examination of Soviet Diplomatic Relations: Declarations That Enemies Will Be Crushed and That "We Will Bury You" Have Undermined Trust in the Soviet Union; the Main Task of Diplomacy Is To Make Friends"]

[Text] The Soviet magazine INTERNATIONAL LIFE recently published a report delivered by Foreign Minister Eduard Shevardnadze to the Conference on Science and Practice of the Soviet Foreign Ministry. That report provided an across-the-board analysis of the developments and changes that have occurred in Soviet foreign policy over the last several decades, set forth a penetrating re-examination of past mistakes in that policy, and elucidated the primary task facing Soviet diplomacy at the current stage. The following is an abstract of the report.

We must first and foremost specify the following idea. National democratization is a necessary precondition and prerequisite for democratization of international relations. For us, this means that we must place primary emphasis on the democratization of the foreign-policy decision-making process.

If the Soviet Union wishes to interact, negotiate and sign treaties with other nations, she must adopt forms that are acceptable to those nations.

We have by no means fully exploited every condition at our disposal to limit the extent and intensity of confrontation and to prevent the appearance of an "iron curtain" that is so costly to us. If this point is not said, we will not be able to deal with each other sincerely.

"The enemy's image (of us)" that we have labored so hard to break is completely different from the reality of the Soviet people. The Soviet people used to being seen as peace-loving, but the declarations that enemies will be crushed and that "we will bury you" have undermined this trust.

Foreign policy is supposedly made in the name of the people. But has it been in full accord with their interests? The "closed door" habits developed during the 1950s yielded repercussions during the early 1980s, when,

following the old habit, we withdrew from the Geneva talks and accelerated and promoted the establishment of a second front in Europe directed against us.

The decision passed by the 19th Congress to establish a plenipotentiary constitutional mechanism providing for discussion and approval of resolutions on important foreign policies was achieved as a result of the great hardship endured by our people and of the painful lesson of Afghanistan, the decline in standards of living and damage to the good name and intrinsic ideals of socialism.

Over the last 3 years, mankind has witnessed much evidence of our commitment fully to effect the following ideas: a proposal for the phased elimination of nuclear weapons by the year 2000, a universal system of security, free choice, the establishment of a European condominium, sufficient and non-aggressive defense, readjustment of relations in the Asian-Pacific region, resolution of regional conflict, removal of armies and bases from the territory of other nations, measures building trust, and making science participate directly in world politics.

New thinking sees peaceful coexistence as the fact of life in the nuclear age. We are fully justified in not treating peaceful coexistence as a particular form of class struggle. Peaceful coexistence is based on such minimum principles as refraining from encroachment on one another, respect for each other's sovereignty, national independence, and refraining from interference in other nations' internal affairs and should not be lumped together with class struggle.

There is another matter that requires examination. Have we done all we can to prevent confrontation with China? That is one side of the question. There is yet another: Economically, what costs have been exacted of our two great socialist nations as a result of that confrontation? The time has come for this institute to consider an economic program along certain political lines.

The growing trend is toward interdependence within the great family of nations of the world, and the confrontation between the two social systems can be eliminated only through peaceful competition.

The primary task of diplomacy is to seek and find new friends for one's country and at the very least to avoid creating enemies—the content of diplomacy is new and enriched. The range of solutions to diplomatic problems has been expanded and enriched, and the approaches have been improved.

Soviet Reform Objectives, Structural Problems Reported

40050144a Shanghai SHIJIE JINGJI DAobao
in Chinese 5 Dec 88 p 4

[Article by Qiu Rukun 6726 3067 3540: "The Objective of the Entire Process of Soviet Perestroika: Building a New Type of Socialist Country From a Mature Socio-economic Base"]

[Text] Since the 19th Congress of the CPSU, the issue of how to put in sequence political and economic restructuring has been a frequent topic of discussion. The current reform involves a long and protracted historical process, one that entails interaction and readjustment of the interrelationships between the economy, society, and politics. On these issues, Soviet scholars have raised many important ideas.

These scholars have stated, "In many respects the revolution of the past inverted the interrelationship that Marxism posited to exist between the socioeconomic base and the political and ideological superstructure. By the time of socialist development, it was no longer the case that the superstructure was molded in accordance with the base but the converse—the party and the state, the superstructure, were used to build a new base, transforming the relationships of production and the social structure on their own orders." This is an extremely important fact. Current Soviet reform must set the inverted relationships rightside up. Of course, this by no means implies that the specific steps of the process must be sequenced in the reinverted order.

The aftereffects of the Stalinist model were evidenced first and foremost in the economy, where national income failed to improve for 20 years and even showed a decline during the early 1980s.

During the era of the personality cult and in which the economy was managed administratively, the masses were transformed into a passive "labor force," and their ownership of factories and land and their rights within society were actually taken from them. Consequently, the economy stagnated, and there was widespread indifference, passivity, shameless behavior, and outright graft.

Socially, a serious clash with the administration meant a real increase in unemployment. People no longer perceived themselves as masters of their own fate.

Sociopolitical rifts have occurred with each social strata. Bureaucrats often serve as managers, and the average worker does not necessarily support reform, because the current model once satisfied (and still does!) most people. The model provides a certain amount of security, even if what is secured is a hard, spartan existence.

Politically, the personality cult has by no means disappeared; what has disappeared is a handful of people within the political system who used to champion the

cult. This system has given rise to highly centralized administrative commandism in both the economic sphere as well as the areas of science, art, and social and political life. Supervising departments have become more powerful than the state, the party and the community, engendering a tripartite division of power between the party, the soviets and administrative agencies.

The aforementioned situations demonstrate that the consequences in these three areas overlap and condition each other. The direct cause of these consequences is that bureaucrats have deprived the people of their rights.

The emphasis placed by the 19th CPSU Congress on democracy and political restructuring fully accords with the historical characteristics of the Soviet Union. With the traditional system fully intact, reform must commence with politics. Specifically, the first thing that must be done is to consolidate the leadership position of the reformers in the party and government system. In this respect, the recent major reshuffling of personnel carried out by Mr Gorbachev was necessary. Naturally, the objective of the entire process of restructuring is to create a new type of socialist nation from a mature socioeconomic base. Only in such a country can the people truly feel that they are the masters of society and of their own fate.

'New Thinking' Allows Greater Tolerance Toward Bloc Nations

40050154 Shanghai SHIJIE JINGJI DAobao
in Chinese 28 Nov 88 p 4

[Article by China People's University Professor Yang Shouzheng 2799 1343 2973: "Redirecting a Distorted Principle—On the Effect of Soviet 'New Thinking' on Relationships Among Socialist Nations; the Soviets, Under the Guidance of Gorbachev's New Thinking, Have Begun To Re-Examine Socialism"]

[Text] Traditional socialist theory and practice, as established in the Soviet Union during the 1930's and '40's, has always been venerated as the pattern for all socialist nations to adopt. For a long time the Soviet Union presented its own experience as the "common pattern" to which other socialist nations must adhere. It also criticized and flagrantly interfered in the internal affairs of any nation that "broke away from the greater socialist family" and independently sought to build a socialist nation. It even went so far as to regard some socialist nations as inductees into its own league.

The Soviet communist party has long considered itself to be at center stage in the international communist movement, and has not scrupled to interfere in the internal affairs of other communist parties. Thus many problems have accumulated in the interrelationships among socialist nations, and in the international communist

movement itself. Gorbachev believes we should all draw "a lesson from the bitter experience" of the Soviet Union's past severance of friendly relations with Yugoslavia, China, and Albania. Gorbachev has said that "We absolutely must establish an overall system of political relationships among socialist nations—a system based on complete autonomy." "That each party is autonomous, has the right to resolve its national problems on its own, and is responsible for its own people—this is the policy we must observe." Soviet leaders have begun to recognize that we must integrate the experience we have gained in 40-plus years of interrelationships among socialist nations and in the 70-plus years of the international communist movement. In the past two years the new thinking in the Soviet Union has had a significant influence on interrelations among socialist nations and on the international communist movement. The Soviets view this as a profound reversal in thinking—a principle which had been distorted is now being redirected.

In the primary stage of socialistic formation, the Soviet Union was the only nation that had experience in building socialism, so this experience was naturally considered to be the prototype. Variations among socialist nations in their economic and political stages of development, historical and cultural traditions, and geographical conditions guarantee diversity in the socialist world. The Soviet pattern of socialism, which arose under the extraordinary circumstances of the Stalinist period, should not be considered an absolute. Socialism does not offer, nor can it offer, one particular pattern that can be imitated by all socialist nations. In the course of historical development the current socialist nations have each accumulated rich experience in socialist construction. The Soviet Union should also respect and study the experiences of other socialist nations.

The communist party in each nation has grown up on that nation's own home turf, so there is no way that communist parties will be unanimous in their opinions and viewpoints on all issues. The communist party in each nation has an absolute right to independence, autonomy, and full equality with other communist parties. None are privileged, and no party has a monopoly on the truth.

The socialist system has entered a new stage, and the socialist nations and the communist parties of every nation are now better able to establish generally recognized principles of interrelationships among them. The system of democratic centralization is limited to a nation's internal society and does not apply to the domain of relationships among socialist nations.

There is no single hub in the socialist system. The international communist movement needs no centralized organizational center, and it has accepted this fact. The communist movement has entered a new stage of development and requires innovative change. In today's world socialist nations must strictly adhere to the principles of equality, mutual benefit, respect for sovereignty

and territorial integrity, and mutual noninterference in each other's internal affairs. There is no particular hub and nobody has the right to issue orders to other socialist countries. Each socialist nation has the right and the freedom to choose its own course of socialist development. Under the guidance of this new thinking the Soviet Union has switched from tacit approval to overt approval of the above principles.

From the perspective of historical development, nations objectively exist, and we must acknowledge that each one has its own objective interests: this is the point of departure for the new thinking. Consequently we should seek for the point of integration at which these interests mutually coincide. As some Soviet scholars have said, in the past the Soviet Union refused to acknowledge the obstacles that exist in Sino-Soviet relations. Since China maintains that three major obstacles do exist, the Soviets must understand China's policies and international interests and try to find measures and ways to resolve the problems.

In the interrelations among socialist nations, if a particular socialist nation for some reason stops participating in coordinated international activities, we cannot say it has broken away from the socialist system. It is typical for there to be, for various reasons, differences in positions and viewpoints between a socialist nation and the party in power. Many Soviet people confuse "the socialist system" with "the greater socialist family." It is as though a nation is not a member of the "greater family," it is not a member of the socialist system, and if it is not a member of the socialist system, it is not a socialist nation.

Under Gorbachev's new thinking the Soviet Union has begun to revise its policies toward socialist nations and the international communist movement, and to emphasize equality, independence, and autonomy. Time and again Gorbachev has stressed that he wants to improve relations with China, and he has also demonstrated this in action. This is a gratifying new atmosphere. Perhaps there will be no recurrence of the historic tragedy that took place in the international communist movement.

EAST EUROPE

Theoretical Questions Raised by Openness in Hungary, Yugoslavia

40050151 Shanghai SHIJIE JINGJI DAobao
in Chinese 5 Dec 88 p 4

[Article by Zhang Xiaogang 1728 2556 0474: "Storms Have By No Means Occurred Here: Although Yugoslavia and Hungary Have Experienced Social Turbulence, the Real Changes in These Countries Have Occurred in Three General Areas—Popular Criticism Is on the Rise; Social Groups and Mass Organizations Are Unusually Active; and the Idea of Social Pluralization Is Becoming More Accepted"]

[Excerpt] [Passage omitted] Yugoslavia and Hungary certainly do face some social turbulence in the midst of

their economic difficulties. But this turbulence is certainly not some kind of storm buffeting a decadent system, as some people imagine. That is because these two countries enjoy a life of material plenty, the centers of power of their societies have by no means collapsed, and their people definitely do not enjoy engaging in desperate riots. The real changes have occurred in three general areas. 1) Popular criticism is increasing; 2) social groups and mass organizations are unusually active; 3) the idea of social pluralization is growing.

In an interview, Luo Liqi [5012 4539 1142], executive secretary of the Central Committee of the Yugoslav Communist Party, "A new generation has grown up on the soil of socialism. This generation has a new understanding of the world and of life and expresses much criticism, but not with the aim of rejecting Marxism. This generation is concerned mainly about today's life—a diversified economy that has grown up under a situation in which socialist elements predominate, as well as the requirements of a diversified society that has arisen from this economy."

The diversification of society has resulted in an increase in the number of mass organizations and a strengthening of the representativeness of existing mass groups. Hungary's recent situation is very typical. For many years, Hungary has recognized the existence of two major social classes and one social stratum, namely, workers, peasants, and intellectuals. A growing trend toward social diversification has appeared since May of this year, and there are reported to be more than 7,000 social groups and mass organizations in that country.

Social diversification poses three major theoretical questions for the ruling party. First is how coordination can be ensured between this trend and political and economic restructuring.

The second question involves examination of the necessity and feasibility of instituting a multiparty system of political competition.

The third question is how the ruling party will play its leading role over social groups and mass organizations.

Under their new political leadership cores, Yugoslavia and Hungary, though experiencing some turbulence, have by no means let opportunity pass them by. Disturbances in both countries remain properly organized and orderly and do not pose any threat to normal economic life. Most of the new social groups and mass organizations in Hungary have made clear from the outset their support for democracy and reform. And in their diversified lives, people are engaged in a common search for a vigorous socialism.

WESTERN HEMISPHERE

Scholars Analyze Latin American Future
40050150 Beijing LIAOWANG [OUTLOOK] in Chinese
No 46, 14 Nov 88 pp 38-39

[Article by Shen An 3088 1344: "Chinese Scholars Discuss the Future of Latin America During the Rest of This Decade and Into the Next"]

[Text] Although the road will be very bumpy and tortuous, Latin America will continue to advance toward the goals of "peace, democracy, security, and development" during the 1990s, which are almost upon us. Compared to the 1980s, the 1990s promise good prospects for democracy, economic development and the peace process in Latin America.

This is the optimistic forecast that was made by a number of Chinese scholars who attended the recently convened annual meeting of the Chinese Society for Latin American Studies. Approximately 80 professors and experts who study Latin American problems focused on the theme "Latin America as It Enters the 1990s" and discussed their views of the region's outlook at the meeting.

Favorable international conditions. Recent changes in international affairs have created favorable conditions for the Latin American region, especially for peace in Central America. Zhang Dequn [1728 1795 5028], former ambassador to Brazil who was reelected director of the society at the meeting, predicted that the situation in Latin America will not deviate from general world trends, which he said include the following three areas: American-Soviet relations and regional hot spots are easing, and dialogue and diplomatic activity have stepped up considerably; growing global multipolarity; and as tensions have eased, both industrialized nations and developing nations are making economic development their primary objective. Zhang expressed the view that these general trends are bound to have a favorable effect on the politics, economy and foreign affairs of Latin America.

Peace is in sight. The peace process in Latin America, especially Central America, was one of the foci of the scholars' discussion. Achieving peace in Central America was one of the most important goals of Latin American nations during the 1980s. Represented by the Contadora Group, Latin American nations, especially Central American countries, have made tremendous efforts toward this end. The scholars said that the agreement the Central American countries reached in August of last year has not been implemented yet, so restoring and consolidating peace will be the primary tasks of the region next year and during the early 1990s. Some scholars argued that peace in Central America faces a complex mix of favorable and unfavorable conditions. The favorable conditions are as follows: The nations of Central America yearn for peace, will no longer take

orders from big countries, and are striving for peace; the easing of international tensions, especially the achievement of peace in other regional hot spots, have had a positive effect on Central America; the superpowers, which have intervened in the crisis of this region, have begun or may begin to adjust their policies, and the Soviet Union's policy change has already had a positive effect prompting Nicaragua's efforts to achieve peace. Most scholars stated the view that United States interference remains the biggest obstacle and thus that the key to whether or not peace will be achieved lies in which direction the U.S. policy will go. Professor Liang Zhuosheng [2733 0587 3932] of the Institute for Foreign Affairs averred that President Reagan's interventionist policy has essentially proved a failure and that there is growing demand in the United States for a change in U.S. policy toward Central America. Wang Yulin [3076 0060 7792], associate research fellow at the Institute of Modern International Relations, stated the view that future U.S. policy toward the region will primarily apply political and economic measures, backed by military force, and that military intervention in the region will therefore decline. Under these conditions, he and other scholars believe that, while the crisis will not immediately be "braked," it will cool, and the region may even move toward peace. This would be consistent with current general trends.

Democratization has been solidified. The meeting was held just as the opposition triumphed in the election in Chile. Many of the scholars attending the meeting expressed the view that the event marked the beginning of a new stage in the process of democratization in Latin America. Zeng Zhaoyao [2582 2507 5069], associate research fellow of the Latin American Studies Institute of the Chinese Academy of Social Sciences, pointed out that democratization is not limited just to the political sphere and to increasing political participation but should also include economic, cultural, and educational spheres. Political democratization can be solidified only by equalizing share of wealth and distribution, by extending education and by equalizing opportunity. Zeng asserted that prospects for democratization during the 1990s are bright but that, of course, the fight will be tough and the road, tortuous. Fu Qisong [0265 2601 2646], associate researcher of the Institute of Modern International Relations, stated that political democratization has become a major trend internationally, and there exist both favorable and unfavorable conditions for the consolidation of democratic systems of government. "On balance," he said, "conditions are favorable. Although military coups cannot fully be ruled out, for the time being the major countries of Latin America are unlikely to have any new coups or military juntas."

Foreign debt crisis. Latin America's foreign debt has reached \$410 billion, and the heavy debt burden has become the major obstacle to the region's economic development. Some scholars stated that the efforts of Latin American debtor nations, the rescheduling of the major countries' debt repayments to the late 1990s, and the use of such measures as debt capitalization and

debt-securities swapping has caused the crisis to subside somewhat, reduced the rate of growth in debt and lightened repayment burdens. Thus no major payment crisis is expected for the time being. Su Zhenxing [5685 2182 5281], deputy director of the Chinese Society for Latin American Studies and director of the Latin American Studies Institute of the Chinese Academy of Social Sciences, noted that the debt problem of developing nations ultimately affects the entire world economy. "The relaxation in the attitudes of creditor nations and banks as to how to deal with the debt problem" probably will continue, he predicted, and Latin America's debt problem "will continue to abate, but the abatement process will be a slow one."

As to outlook for economic growth, the scholars offered two different scenarios. The first argued that the pickup in prices for raw materials, the recovery of economic growth in industrialized nations, the easing of the debt crisis, and other factors will enable Latin American economies to get out of their slumps and to achieve fairly good growth rates. Wang Xinlu [2769 2450 4389], associate research fellow at the Institute of Modern International Relations, citing statistics published by American researchers, claimed that the principal countries of Latin America may achieve growth rates of 2-5 percent during the early 1990s. The other scenario argued that Latin American economies, constrained by two major factors—the debt problem and structural readjustment, may continue to hover at lower rates of growth for fairly long period of time.

Continuing to move toward diversification in foreign relations. After reviewing the foreign relations of Latin American nations during the 1980s, the scholars speculated that the region will seek to be more pragmatic and diversified in its external relations. Zhang Dequn expressed the view that events in the 1980s have shown that U.S. hegemony in the region is gone for good and that U.S. influence will continue to decline in the future. Of course, for a variety of reasons, the United States will continue to maintain close relations with Latin America, and to protect her "backyard" the United States will continue to make Latin America her principal foreign relations concern. Analyzing recent changes in Soviet policy toward Latin America, some scholars have the view that, with his new thinking, Mr Gorbachev has readjusted Soviet Latin American policy, plans to stop exporting revolution, and stresses development of normal political and economic relations with most Latin American countries. Soviet-Latin American relations have developed greatly in recent years, and the planned visit of Mr Gorbachev to the region next year will be a major event in the history of Soviet-Latin American relations.

As to relations between Latin American and Asian countries, Wang Yulin stated in his address that Japan has very noticeably become second only to the United States in the external economic relations of Latin American countries. In reporting his own impression of Central America, Wang said that, even in war-torn El Salvador, advertisements for Japanese products can be seen everywhere, which fact

gives you some indication of the trend. Other scholars noted that there has also been considerable development in relations between Latin America and the four little dragons of Asia.

As to Chinese-Latin American relations, many scholars expressed the view that the 1990s offer new opportunities for developing relations between the two sides, that

there are no major conflicts of interests between the two sides, and that much potential exists in the area of economic cooperation. The problem is that the two sides need to increase understanding of each other and to adopt appropriate forms for the expansion of mutual cooperation in all spheres. Conference participants agreed that these issues provide new topics for researchers and practical workers on both sides to study.

Six Obstacles to Study of Political System Reform
40050218b Beijing LILUN XINXIBAO
[THEORETICAL INFORMATION]
in Chinese No 181, 12 Dec 88 p 2

[Article by Zhang Kunlun 1728 2492 0178: "Six Shortcomings in the Theoretical Study of Political System Reform"]

[Text] Even though very great achievements have been made in recent years in the theoretical study of China's political system, quite a few problems still remain that are manifested primarily in the six shortcomings of "responding to political winds, vacuity, repetition, scarcity, proscription, and narrowness."

Political Winds

Theoretical study of political system reform has frequently consisted of "acting in response to perceived changes in the wind," and "trimming one's sails to suit the wind." These "winds" may be various decisions made by the Central Committee, speeches by various important personages, or directives. This state of affairs means that theory does not derive from practice but from officials, and that study does not serve reforms, but serves policies. All the study is on-again off-again, and alternately hot and cold, with talk of "relaxation" one minute, and talk of "opposing pollution" the next, statements that there are "no forbidden zones," followed by opposition to "liberalization," one thing conflicting with the other till one is at a loss as to what to do. Research personnel can only "follow orders in their studies," and write "official-ese."

Vacuity

Articles are long and vacuous, and the writing involved and abstruse. They are filled with truths and principles, but rarely do they address reality, or probe current failings (and even when they do, mostly they do so in a dreary and desultory fashion). They lack realism and pertinence.

Repetition

Numerous articles are written, but they are lengthy and tedious, and virtually all of them dwell on several officially "prescribed" principles, arrive at the same conclusions via different routes, and belabor the same points. The atmosphere of study is oppressive, dull, uncritical, lacks creativity, lacks contention, and is not anticipatory.

Scarcity

Few forums, and little space reserved for discussion in periodicals. After 10 years of reform, there is still not a single periodical in the entire country dedicated to discussion of political system reform. This stands in extremely great contrast to the thicket of periodicals on economic system reform that have flourished.

Proscription

Both visible and invisible forbidden zones exist in the theoretical study of political system reform as follows:

1) Lack of openness and the establishment of forbidden zones in Party and government activities, particularly high level Party and government activities, causes a lack of basic data and reference materials for the theoretical study of political reform. Only a "peripheral war" can be waged, which makes the scoring of substantive breakthroughs difficult.

2) The personal lives of Party and government cadres, particularly high ranking leaders, have been made mysterious, with the result that researchers lack a well rounded and detailed understanding of personal details about them, their temperament and likes, their personal characteristics, their family life, and their social contacts. This causes numerous difficulties in the study of the myriad little personal elements that make up the political system. Researchers can only deduce the political views of leaders from their open or official statements, and usually this is very inadequate.

3) The invisible tradition that has grown up over the past several decades against periodicals' open criticism by name of Party and government cadres, particularly high ranking Party and government cadres, continues to exist today, and an unhealthy situation has developed of "no criticism of an incumbent, criticism requiring a person to step down."

4) In the sciences, practice is the only standard; there are no forbidden zones in science, and no forbidden zones in learning. In science, one cannot arbitrarily apply the unwarranted charge of "violating the four basic principles," as a means of using authority to suppress people. However, this phenomenon still exists in reality. This causes great apprehension among researchers, which makes it hard for them to blaze new trails.

Narrowness

Narrow sphere: Theoretical study of political reform emphasizes China to the neglect of the outside world, and emphasizes socialism to the neglect of capitalism. It overemphasizes "China's uniqueness," while ignoring "common patterns." Little information is provided about, but much criticism is directed against capitalist political systems, and too little is done in the way of borrowing outstanding features.

Narrowness in forms of expression: Only academic dissertations such as scholars and leaders enjoy reading are used, but forms of expression such as the public love to see and hear are lacking, including biography, reportorial literature, political novels, television films, and cartoons.

Theory confined to a study instead of being geared to society and addressed to the people can scarcely ever be converted into a tremendous material force for the transformation of society.

The above six shortcomings hem in and confound the theoretical study of China's political system reform. The theoretical study of political reform, which should stand in the forefront of all social science disciplines, is now seriously lagging behind.

Past, Present Errors of Communism International Reviewed

40050218a Beijing LILUN XINXIBAO
[THEORETICAL INFORMATION]
in Chinese No 181, 12 Dec 88 p 2

[Article by Zhang Tong 1728 4547: "Need To Re-Evaluate Communist International"]

[Text] The "Communist International Academic Seminar" sponsored jointly by the Chinese Communist Movement Historical Society, the International Institute of the Central Committee Bureau for Translating the Works of Marx, Engels, Lenin, and Stalin, the International Communist Movement Historical Teaching and Research Section, the Marxism-Leninism Institute of the Chinese Academy of Social Sciences, and the National Politics Department of People's University convened in Hefei recently. Discussions at the meeting focused on Communist International leftist deviation errors and their causes, and on the influence of Communism International on the communist movement today.

The Study of Communism International has always been a sensitive field. The recent proposal from CPSU leaders for a re-evaluation of Communism International, and announcement of the opening to the public of Communism International files provide improved conditions for the study of this issue.

Some comrades maintain that a "leftist" line has existed in all the activities and in the historical development of Communism International. They maintain that Lenin's imperialism theory (with some going back to the Marxist theory of world revolution) is its theoretical source. The specific world situation following the October Revolution is the fount of social history, and the intense leftist feeling of the bankrupted peasants and petit bourgeoisie who took part in the revolution is the class basis for "leftist" errors.

On the issue of the relationship between Communism International and the Chinese revolution, attendees maintained that Chen Duxiu's rightist errors, Li Lisan's "leftist errors," and Wang Ming's "leftism" followed by rightism were all directly related to direction from Communism International. They were the result of having carried out Communism International's strategic tactics, and caused tremendous losses for the Chinese revolution. Some comrades maintained that the errors that

Communism International committed on the China issue were related to the Soviet Union's foreign policy and the interests of the Soviet Union at that time.

Everyone acknowledged the negative influence of the theory and practice of Communism International on development of the communist movement at the present time. Examples are as follows: the highly centralized organizational style, which places the CPSU (Bolshevik) in a special position, results in large parties directing small parties, and small parties becoming appendages of large parties; as a result of strategic mistakes made by the workers movement in developed capitalist countries, the workers movement in these countries has tended to decline; as a result of having made the experience of the Soviet Union sacred, absolute, and dogmatic, thinking became rigid, and the pernicious influence is still far from being eradicated; and the disastrous consequences of the cult of the individual, etc. All have had a bad effect on the international communist movement at the present time.

Beijing Meeting To Re-Examine 10 Years of Reform

40050171 Hong Kong CHING PAO [THE MIRROR]
in Chinese No 137, Dec 88 pp 40-42

[Article by Jung Chang 2837 4545: "Beijing Meeting To Re-Examine 10 Years of Reform; Chinese Communists Present New Documents on Theoretical Work"]

[Text] *The new documents on improving theoretical research presented by the Chinese communists point out that theoretical research is not the same as propaganda and literary and art work. Theoretical research can be discussed within a larger framework, and each different school of thought can engage in contention. Each different viewpoint based on scientific research will be reflected in theoretical publications. The views of leaders who belong to one school of thought may be freely proffered.*

Since the Chinese communists took over the mainland, the most spectacular events for the people of the work were the 10 years of reform and opening up to the outside world and the 10 years of turmoil in the cultural revolution. Because of them the features of Chinese society present a sharp contrast. In the life style of the populace and the goals they pursue, as compared to the traditional theories of the Chinese communists, there have been enormous changes. All of these changes began 10 years ago on 18 to 22 December with the holding of the Third Plenary Session of the Eleventh CPC Central Committee. This year, to sum up the successes and failures of the 10 years of reform and to make a leading exploration by means of theoretical and academic research, the Chinese communists will invite 300 experts and scholars to gather in Beijing in December and hold a symposium on theory with relation to the 10 years of reform. At the same time the Chinese communists will draw up a paper "on some opinions for enhancing and improving theoretical research."

According to reports, not long after the end of the Third Plenary Session of the Eleventh CPC Central Committee, a meeting was held to discuss principles or ideological guidelines at which some young and middle-aged scholars put forward many ringing propositions that will have path-breaking effects on the process of reform. Among these propositions was Yan Jiaqi's [0917 1367 0366] "abrogate the life tenure system for the posts of leading cadres" and Liu Zaifu's [0491 0375 1788] to abolish "the idea that literature and art must serve politics" and "the theory of class struggle as a tool." Li Yining [0632 0110 1380] put forward the view, among others, that commodity exchange be given a good name and that the market economy be vigorously developed. Because of their rising prestige these persons have become the new focal figures in theoretical circles.

However, at this time the grim economic situation makes many topics of conversation seem more sensitive, and thus the courage to engage in theoretical inquiries is baffled. It is said that in the theses presented at the symposium, even if there will be no lack of unique, precise and penetrating expositions, they will be on an overall level that will be inadequate to reflect the contemporary situation in which disputes over viewpoints between the factions in theoretical circles have arisen in swarms. The scale of this large meeting of workers in the social sciences was reduced from the originally proposed 600 or 700 persons to 300 persons. There is news that Yan Jiaqi, who resigned from his post as director of the Political Science Institute of the Chinese Academy of Social Sciences, recently indicated that because of many commitments to receive callers, he would not take part in this meeting.

However, what was comforting to the scholars was that, in the final analysis, the Chinese communists do not consider theoretical research to be the same as the work done by propaganda departments and the work in literature and art. Thus inquiries can be made on a larger scale, and each different school of thought can engage in contention. This will reflect the "some opinions" that are about to be issued.

The Meeting of "Big Five" Theoreticians

Gong Yuzhi [7895 5148 0037], a well-known reform theoretician and now the deputy director of the Propaganda Department of the CPC Central Committee, is preparing this symposium and will preside over it. Those at the symposium will include persons from the Academy of Social Sciences and its research institutes, party schools, institutions of higher learning, the armed forces, and state organizations, namely, the ideological and theoretical workers from the five major systems of government organizations.

Originally, the theoretical summation by the Chinese communists of the 10 years of reform to be done next year was to coincide with the 40th anniversary of the

establishment of the government. This meeting is considered by the Chinese communist higher strata as the most important meeting in the second half of the year. In it will be preliminary informal discussions on setting up appropriate organizations for the control of the work of social sciences. Some people have maintained that the work in the social sciences should be lumped together and put under the control of the State Science and Technology Commission. But figures in theoretical circles have many negative opinions on this question. They think that for the time being it will be difficult to make a major readjustment of the management system in the state science and technology system itself. Some people think that each province, city, and autonomous prefecture should set up a social sciences federation, and others think that a unified organization similar to the All-China Federation of Literary and Art Circles should be set up. It is said that the Chinese Academy of Social Sciences thinks that it would be using funds in vain and that it would cause new tieups and trouble for academic activities. This debate fizzled out in a deadlock.

Perhaps the Chinese communists have decided that next year, on the 40th anniversary of the National Day of the PRC, not to hold a rally in Tiananmen Square and not to organize a parade and troop review there, thereby lessening the momentum of this meeting and causing it to possess a more specialized academic nature. The commemorative article to mark the 90th anniversary of the birth of former chairman Liu Shaoqi, which was written by Xue Muqiao [5641 2550 0294] and other well-known Chinese communist experts, has become the precursor of this meeting. It includes, among other things, the affirmation of the existence of private enterprises and the pursuit of the coordinated development of the national economy.

It is understood that of the more than 300 persons at the meeting, besides some leading cadres in the field of theory more than 200 theoretical workers will present theses. Of them 45 will be from the Academy of Social Sciences and its research institutes, 30 will be from the party school system, and 35 will be from the system of institutions of higher learning. Ding Weizhi [0002 0251 1807], vice president of the Chinese Academy of Social Sciences, will take part in the preparations and arrangements for this meeting. It is reported that a little over 180 theses sent by the social sciences system will, after approval, be selected. This is because of all the theses that will be presented at the meeting 10 percent will be given first-class awards, 30 percent will be given second-class awards, and the remaining 60 percent will be given third-class awards.

The Policy of Relaxation Permits Inquiry

Within the theoretical circles there are no lack of brain-trusters in the higher stratum of the Chinese communists. Gong Yuzhi was one of the 13 persons who drafted the "political report" delivered by Zhao Ziyang at the

13th CPC Congress. "Some Opinions of the CPC Central Committee on Enhancing and Improving Theoretical Research" was drafted under his direction. There have been many revisions of this draft. After being discussed by the CPC Secretariat they will be presented to the Politburo for examination and approval.

It is an authoritative document for policy guidance, and it contains three parts.

The first part is an evaluation of the development of the theoretical research ranks and their research results.

The second part is a reiteration of the policy of "letting a hundred flowers blossom" and "letting a hundred schools of thought contend."

In them the point is made that in 1956 the "double hundred policy" put forward by the Chinese communists showed that the party was trying to reform its mode of leadership over literary and art work and over scientific research work. However, at that time because of the mistaken guiding ideology of the "Left," stress was put on taking class struggle as the key link, and in the ideological realm there was set off a struggle "to foster proletarian ideology and eliminate bourgeois ideology." By the time of the cultural revolution the spirit of free discussion had been completely lost. After the Third Plenary Session of the Eleventh CPC Central Committee, order began to be brought out of chaos. Now, even if there is this or that kind of problem things are much better than they were. To avoid repeating the mistaken practices of the past, there must be a fundamental, common understanding. The party's leading cadres must strive to learn how, under conditions of "letting a hundred schools of thought contend," to uphold and develop the new leadership mode of Marxism.

The Chinese communists think that the unification of the ideological line within the party is the fundamental aspect in politics. In reality this means obedience to the party's resolutions, but it does not mean the unification of theoretical viewpoints. When doing internal research, different viewpoints should be permitted so that the different schools of thought engage in debate.

"Letting a hundred schools of thought contend" means that in the academic realm there exist schools of thought on research besides that of Marxism. Upholding the four basic principles does not mean that people must accept all the specific viewpoints of Marxism and cannot put forward different opinions. Marxism must not isolate itself. It should rely on the force of truth and not on administrative compulsion to make people accept a certain viewpoint. A large number of academic trends of thought in foreign countries have poured into China, resulting in a new situation facing the idea of "letting a hundred schools of thought contend." In academic research there are no forbidden zones; in the making of decisions on political policy, propaganda and action must submit to the discipline of democratic politics. To

protect the enthusiasm for blazing new trails in inquiry, people must be given the necessary degree of freedom and sense of security. The party's and the government's policies and resolutions are the result of academic research, and they are also the object of research. The Chinese communists have reiterated that when policies and resolutions have been made they must be put into practice, and different opinions should not be openly publicized—this is discipline. But in theoretical publications, the party's meetings, the theoretical circles' meetings, the internal publications and the internal report meetings, it is permissible to discuss different viewpoints that are based on scientific research. The leaders' viewpoints, if they belong to one school of thought, may be freely explored. The ranks of theoreticians are tempered by means of "letting a hundred schools of thought contend," which also raises the academic level and guides reform in practice.

In the third part, the Chinese communists will announce that they will take a series of measures to improve their leadership over theoretical research; when leadership organizations discuss policy-making decisions they must invite experts and scholars to take part in research. It has been revealed that the Chinese communists will train and expand the ranks of theoretical researchers by increased allocation of funds. They will encourage and reward the results of research, resolve difficulties in getting academic works published, and provide a good work environment for theoretical workers.

There is news that, during the drafting of "Some Opinions," the Chinese communists sought the opinions of many experts and scholars. Some people hope that among the opinions are the relevant policies that guarantee theoretical inquiry and the airing of different opinions, which can, through NPC legislation, become laws that protect academic freedom.

Opening Up Pluralistic Theories to Research

The Chinese communists hope that this theoretical symposium will be able, like the meeting on the cultural revolution generation, to remain untangled from the old accounts of history in "clearing away filth" and "opposing liberalization," so as to avoid deviating from the subject; and at the end of the year, in this fairly sensitive time, to bury the seeds of instability.

In the theses that will be presented at the meeting there will be some lofty, fine pieces of writing that will contain new theories and new viewpoints that will make people look at things with new eyes. Among them are those that reevaluate Marx' *Das Kapital* and from the angle of modern production compare the good and the bad in the two systems, and with closely reasoned inferences and exploratory analyses provide people with an enormous amount of instruction. Su Shaozhi's [5685 4801 2535] *Opening a New Page in the History of the Development of Marxism*, Liu Zaifu's [0491 0375 1788] *On the Revolution in Literary Reform in the Criticism of Literature in*

the Eighties, Wang Penglin's [3769 7720 0109] *Changing the Subject, Coming Up With New Methods, and Creating a New Form of Marxism*, Hong Yunshan's [3163 7301 1472] *Re-Demarcation of the Bounds of the Era of Socialism*, as well as Dong Furen's [5516 6534 6514] thesis on economic reform—all of the above are evaluated as great dissertations worthy of first-class awards.

Su Shaozhi thinks that universally acknowledged successes were achieved in China's 10 years of reform, but that China now faces an open or hidden economic crisis. First of all, the economic situation is grim. The rate of inflation is the highest in the past 40 years, and various phenomena reveal the existence of serious problems in China's economic "foundation." Second, there is the psychological aspect. There is a lack of confidence, on the part of society and the public, in the reforms, the future, and the leadership. The "crisis of faith" in Marxism has become more prevalent in all countries of the modern world. It is closely connected with the oversimplification, ossification, and dogmatism in the history of the communist movement since the 20th century began. He advocates that, while stressing the theoretical and practical natures of Marxism, one should also stress its critical, pluralistic, and open natures. Lenin, Stalin, Mao Zedong, and Tito all had their own interpretations of Marxism, and so in reality it is pluralistic. Stalin made a draft of *Monolithic Obedience to Dictatorship*, but ever since he did it, he has instead caused a big split. "We should renounce the concept of a unified domain, encourage the formation of a situation in which there are pluralistic and diverse cultural ideas and ideologies." If in the theoretical field there is coexistence of all schools of thought, then through mutual comparison, permeation, and exploration they will display their strong points and avoid their weak points and will make the best choices for life.

Hong Yunshan, a researcher in the Sichuan provincial branch of the Academy of Social Sciences, has made a realignment of theory in the present age. He thinks that Lenin's thesis *The Age of Imperialism and the Proletarian Revolution* cannot pass the test of practice. Deng Xiaoping has said that "Peace and development are the themes of the contemporary world." Therefore, "the theory of the peaceful coexistence of mankind must replace the theory of revolutionary supersedence," and "the theory of mankind being in a new age must replace Lenin's theory of this age." There are four reasons for this conclusion: The truly socialist countries (including the Soviet Union and the countries of Eastern Europe) have not superseded the higher stage social form of capitalism, and the socialism that Marx talked about is to be established on a highly industrialized foundation; the modern capitalist system is not winding down and is not on the verge of extinction, but rather is showing a tendency to mature; most of the Third World countries that have obtained successes and economic development had adopted the state form of capitalism; and the development of modern scientific civilization requires peaceful coexistence.

The Difficult Problem of the "Gedebahe [0766 1795 1572 6378] Hypothesis"

In the theses on the current economic system and the reform of the overall system, there is no lack of penetrating, original views. Zhong Pengrong [6988 2590 2837], a young economist in the Investigation and Research Section of the General Office in the CPC Central Committee, has pointed out that the reform of the system of ownership is one of the significant topics in the deepening of reform. The all-people system of ownership, which gets its authority from the state's administrative system of ownership, is in reality controlled by the government at all levels. This is the way it has evolved: all-people ownership system—state ownership system—government ownership system. Its characteristics are that enterprises are set up by government officials at all levels, capital is raised by the government, managers are appointed by the government, laborers are recruited in line with government quotas, and an enterprise's profit and loss are the government's responsibility. This kind of ownership system leads to the following root causes of trouble: ineffective investment expansion, bad enterprise administration, loss of control of group consumption, and intensification of inflation. If these illnesses are not cured, reforms will be insubstantial.

Young scholars Hua Sheng [5478 3932], Zhang Xuejin [1728 1331 6511], and Luo Xiaopeng [5012 1420 2590], in their 70,000-word thesis *China's 10 Years of Reform: Review, Re-Examination, and Prospects*, summed up the three faults committed in the previous stages: First, after the price double-track system was put into practice, there was no timely transformation of the old circulation organizations, and no effort was put into making competitive markets. Second, because of the steep rise in prices, staff and workers should have been paid a wage compensation, but they were not. A system that stimulates people's enthusiasm for production by wage bonuses was not strictly demarcated. The problem of the unfairness of income and the pernicious runaway development of group consumption was not timely solved, and thus there was an expansion of financial expenditure. Third, the expected enormous regulatory effect was ignored, causing policies to often fall behind "counter-measures." In particular, price reform was handled improperly, creating a sudden unrest in popular feeling and seriously worsening the environment for reform. To get out of this predicament and strive for successes in reform, we must re-establish a system of authority that is identical with the market regulations so that property rights, human rights, and administrative rights are put back in their proper positions, thereby avoiding, during the process of weakening administrative rights, the multiplication and expansion of bureaucratic rights. They also advocate that, during the building of the socialist economy, the theory of the "re-establishment of the laborer's individual system of ownership of the means of production" replace the theory of "the dying out of private ownership of the means of production." However, some people think the attempt to combine organically plans and markets on the basis of the public

ownership of the means of production and to set up a "new sequence in the planned commodity economy" would mean that in theory the Gedebeke Hypothesis would still be followed. There would neither be a ready-made economy and precedents nor an economy awaiting inquiry and scientific demonstration.

Next year is the 40th anniversary of the Chinese communists' takeover of the government; it is also the 70th anniversary of the May Fourth Movement, which was the Chinese nation's first awakening to freedom and is highly significant for commemoration. The current unprecedented invigoration in theoretical work and the rise of various schools of thought and trends of thought are considered to be chaotic phenomena of a crisis nature. Men of insight call these phenomena a situation in which academic thought thrives, a third period of "letting a hundred schools of thought contend" after those of the period of the Warring States and the May Fourth Movement. Under no circumstances do we want another tragedy like that of "monolithic obedience to dictatorship and the ensnarement and dismissal of the hundred schools of thought."

Limited Goals, Focus on Priorities Advocated for Reform Effort

40050167 Chongqing GAIGE [REFORM] in Chinese
No 6, 10 Nov 88 pp 22-26

[Article by Xiong Yingwu 3574 2503 2745: "A Re-Examination of the Theory of China's Reform Effort"]

[Text]

Limited Goals Should Be Set for China's Reform Effort

Far-sighted gentlemen in all quarters have come up with all sorts of ideas for China's reform effort, and a number of foreign friends have even proposed raising their own suggestions; truly, the benevolent see benevolence, and the wise see wisdom. I believe, however, that limited goals should be established for China's reform. We got burned in the past when we tried to create a "perfect planned economy," and it would be equally unrealistic for us now to expect that we can establish a "perfect market economy."

For the remainder of this century, at least, there is no way that we can completely transform a product-economy socialism that has a population of more than 1 billion people into a complete market socialism. The reasons this is so are as follows.

First, we must fully take into account the fact that China's is a socialist system that was erected upon the rubble of advanced feudalism (which system may be referred to as "post-feudal socialism"), not the "post-capitalism socialism" that Marx envisioned. In addition, over the last 30-odd years, China has erected a tightly organized product economy. The lesson learned from everyday family life—half-cooked rice is the hardest to

deal with—applies to economic life, too: It is probably more difficult to transform a product economy than a natural economy into a market economy. That is because product economy, which is highly and powerfully organized, has many more "anti-market forces" than does a natural economy, which is dispersed and weak. Clearly, it is unlikely that China can make the transition to market socialism in one or two decades.

Second, the practical reality of China's social productive forces dictates that it will also be very difficult for us to eliminate by the end of this century shortages of major products, infrastructural backwardness, poor performance of social productive forces and poor economic results, and we also confront the grim reality that "population severely presses productivity." Thus we must not entertain overly high hopes for reform. For example, by the year 2000 China's population may exceed 1.3 billion, so even if grain output reaches 500 tons, per capita grain supply will still be less than 400 kilograms. And it is estimated that it will be difficult to bring supply and demand of such major raw materials as steel, wood and basic chemicals into balance by that time and that it will not be possible to change the tendency of electric power, transport, communications and other industries that ought to take the lead to lag behind processing industry. It is easy to imagine that decontrol of prices of scarce products may well lead to monopoly over and rapid surges in the prices of these products. Industries producing steel and basic chemicals require much investment and long construction cycles and thus even with favorable price stimuli cannot greatly increase output or improve their respective supply-demand imbalances within 3-5 years.

Third, there has yet to be a successful example of "market socialism" that we might draw upon, and we have yet to find effective ways and forms by which we might effectively integrate planning and markets. Thus we cannot expect that China's reform effort will enjoy smooth sailing and will encounter no detours or suffer no setbacks. This also means that the reform process is unlikely to be short.

How, then, can we set as precisely as possible limited goals for China's reform? This is a question that needs careful study. It would seem we ought to formulate a comprehensive plan involving short-term (3-5 years), intermediate-term (through the year 2000) and long-term (through the middle of the 21st century) elements. The limited goals of which I speak belong to the short and intermediate terms.

I wonder if these limited short- and intermediate-term goals might include the following elements.

—Sweeping restructuring of state organs, establishment of an honest and efficient government, creation of a just and authoritative legal mechanism, and fashioning of the normal social order required for reform.

—Decontrol of prices according to product type, and the nurture and perfection of markets for such products as grain, meat, vegetables, textiles, machinery, and electrical power substation equipment. Prices would be decontrolled and the transition to market economy initiated for any product for which supply and demand are in basic balance or of which supply can rapidly be increased given favorable price stimuli (such as in the case of pork). Planned prices would be maintained, adjusted as needed, for products for which supply and demand cannot be balanced and the threat of monopoly cannot be dispelled (such as in the case of steel and nonferrous metals). I favor double-tracked prices between different products but oppose double-tracking for the same product.

—Gradually privatizing most enterprises, for only thus will these entities become truly independent market actors that bear full responsibility for all their profits and losses. State enterprises would continue to exist for a long time but be restricted to the following three areas: 1) those serving the public welfare, such as utilities and infrastructural facilities; 2) high-tech industries that are in urgent need of development and that require concentration of human, financial and technical resources; 3) large or super-large enterprises that private individuals lack the resources to run. Privatized enterprises would bear only the obligation to pay taxes to the state and within the limits prescribed by law possess complete autonomy, and governments would not be allowed to intervene in the lawful economic activity of enterprises.

—Letting a small number of coastal areas develop externally oriented economies. On the other hand, the vast interior would probably have to stick primarily to servicing domestic markets, while of course working as hard as possible to expand foreign trade and economic cooperation with other countries. We must soberly recognize that external orientation is an expression of the advanced state of an economy, and we cannot expect a product economy that has long been autarkic to become completely open and externally oriented in a single bound.

Strategic Deployment for the Coordinated Implementation of Reform Is Required

Contract responsibility really worked its magic in the countryside, achieving instant results there. At one time we expected contract responsibility to perform equally well in cities, but experience has shown that such reform is much more complicated than its rural counterpart, and any urban reform measure can succeed only with great difficulty. This is because the rural economy basically had been a natural economy, the marketing rate for major produce had not been high, and the socialization of production and circulation had been low, so the household responsibility system yielded good results. But in the urban economy the level of socialization is higher,

dependence on the marketplace is greater, and the enterprise success is determined not only by enterprises themselves but also by many external factors. And let us not forget the fact that industrial-commercial enterprise responsibility has yet to deal with the question of ownership, in other words, with the root of the "big pot" system, so it is naturally hard to eliminate abuses associated with short-term behavior stemming from this problem. The popular topics for reform keep changing year after year, sometimes several times a year, which fact also suggests that it is impossible for any reform measure (even major ones) to succeed across the board. A decade of experience has shown that strategic deployment for the coordinated implementation of reform is required.

First, economic reforms must be coordinated. For example, in "transferring authority and control over profits," we must simultaneously establish a system of macroeconomic controls; otherwise, each region, department or enterprise will start doing its own thing—which is probably a major reason why non-planned capital construction investment has proved so hard to control! When markets are not properly ordered, decontrol or double tracking of the prices of scarce products and raw materials (such as steel and basic chemicals) can only lead to monopoly and provide fertile ground for illegal official profiteering. Of course, it is not possible to carry all reforms out at once and to achieve their objectives in a single bound, but we can effect "sequenced, coordinated implementation," or what is usually called "the minor coordination." If agricultural prices are decontrolled, urban wages must correspondingly be adjusted, and the reform effort must adapt to the new circulation mechanism employed for produce procurement, establish orderly markets for produce (including futures markets), and so on.

Second, economic growth must be coordinated with economic reform. Over the past several years, I have strongly pushed for adoption of a strategy of "moderate, optimally structured growth." What must be emphasized here is that the strategy of rapid economic growth has created many additional problems for economic reform. 1. Over the years, rapid growth in the economy has been due primarily to the rapid expansion of processing industry, and this has exacerbated the problem of coordinating the development of processing industry, which keeps running too far ahead, and basic industry (raw materials, electric power, fuel, and so on), which lags, and thus accentuated structural supply-demand contradictions, fueled inflation and disrupted markets. 2. The other problem with rapid economic growth is investment inflation. Reform costs money, and so does rapid growth, so this is an important cause of big budget deficits and of inflation. Great fluctuation in growth rates also contributes to poor economic results and market disorder. Thus in the course of reform it is essential that we stress maintenance of a moderate, stable rate of economic growth.

Third, political and economic reform must be coordinated. The transformation of government functions may be said to have both political and economic reform

ramifications. Over the years, we have promised enterprises much autonomy but have failed to deliver. Why? I believe the main reason is that government agencies continue to function as before—the “mother-in-law” lingers on, so the “daughter-in-law” cannot run her own show. We are currently plagued with a big social menace—the outrages committed by “official profiteers,” who have wreaked havoc on and ruined the reputation of reform and are like scuttling rats to which everyone would like to lay a broom. Official profiteering is the product of the commercialization of power. To eliminate this great social menace we need political reform. If this great obstacle is not swept away, economic reform cannot advance, and any good reform that might be initiated would be disfigured to such an extent that it might prove counterproductive. For example, the policy of “letting some people get rich first” has been distorted through “commercialization of power” to become “letting ‘official profiteers’ get rich first.” In a country that has long practiced highly centralized planned economy, economic reform cannot make any headway if it is not carried out in synchronized conjunction with political reform.

At Present, China's Reform Effort Must Give Priority to Political Reform

The biggest obstacle China currently confronts is commercialization of power. This problem has spawned “official profiteers,” disrupted market order, given birth to a band of tycoons who have made their fortunes from reform, ruined the reputation of reform, and eroded trust in the government (the fact that panic buying is sweeping the nation even though the government has repeatedly stated that no new price reforms will be initiated this year is a typical reflection of a lack of trust). There will never be a day of peace if “official profiteers” are not swept away.

Some people say that the craze for money making and the intermingling of officialdom and merchantry are unavoidable.

In flipping through the modern history of Western Europe, especially of England, I have discovered that England, France and other countries certainly have experienced mercantilist crazes. In making the transformation to market economy, it would seem inevitable, therefore, that China would be buffeted by such crazes. But I have also noticed two differences.

First, what English mercantilism pursued was “foreign trade surpluses”—making money from foreigners. China's money-making craze, on the other hand, primarily involves soaking our own people, so in terms of business acumen we are “amateurs at external combat but experts at internal warfare.”

Second, Western European countries have never experienced such widespread commercialization of power as China now suffers. Hence it seems that commercialization of power and intermingling of officialdom and merchantry are peculiar to China.

“Let he who put the bell on the tiger take it off.” In China, where political power has always been superior to the economy, it is quite natural that we begin with political reform the effort to eradicate commercialization of power and to sweep away the obstacles to economic reform.

—We must resolve vigorously to streamline government organs and take away the power of government officials directly to interfere in the lawful economic activities of enterprises—in other words, the “separation of government and enterprise” advocated all these years.

—We must take practical steps to make governments at all levels “honest and efficient.” State organs are moving as quickly as possible to institute a system of fixed salaries for government officials and to incorporate all perquisites into salaries. For the moment, we might begin our effort by establishing salary-bill responsibility contracts for each agency and let the officials of agencies having big staffs draw small salaries and the officials of agencies having small staffs draw big salaries.

—We must draw up and resolutely enforce detailed, stern laws punishing corruption and bribery and ensure that “the prince suffers the same punishment as a commoner if he breaks the law.”

—All political parties and popular groups must gradually be induced to raise their own funds (by collecting membership dues or by canvassing for donations) and to be weaned from government financial support. There is no lack of precedent for this practice in other parts of the world, I believe the approach represents a strategic measure for preserving the virtues of the revolution and for preventing corruption.

China's Reform Effort Requires the Guidance of Modernized Marxism

The history of this century has repeatedly demonstrated that classical Marxism, as represented by the mid-19th century works of Marx himself, cannot adequately guide reform in the 1980s. It is not hard to comprehend that using the wisdom of the age of the steam engine to guide the work of the electronic era is bound to lead to big blunders. Similarly, how can such views as “the death knell of capitalism is about to sound” and “commodity economy does not exist under socialism” be used to guide today's reforms and to handle the relationship between socialism and capitalism?

“Marxism requires new and significant elaboration”—this was an important conclusion drawn by the 13th National Congress of the CPC. I presented my views on the subject in “A Brief Discussion of the Implications and Conditions for Significant Elaboration of Marxism” (SHEHUI KEXUE [Social Science], No 7, 1988). Here I should like to add a few points from the perspective of the requirements of reform.

—The classical Marxist perception of commodity economy is limited by the fact that the market economy of the 19th century was not very well developed, piling greatly before that of the 1980s, which is highly developed. In the history of Western Europe, the commercialization and capitalization of the economy constituted one and the same process, a point Marx misinterpreted to mean that both commodity and capitalist economy would, one day, be extinguished simultaneously, and he therefore posited a "model of noncommercialized socialism." The experience of the 20th century has shown that market economy remains the economic form that is most conducive to the development of productive forces and retains great vitality. We have no choice but to admit, painfully, the fact that the product economy of socialism does not compare to the market economy of capitalism. So the basic way out for reform is to rebuild the economy, that is, to fashion a socialist market economy. We need, therefore, a new theoretical interpretation and a more penetrating summarization of commodity economy.

—"The Communist Manifesto" expressed an idea that has had far-reaching effect, namely, "the theory of the Communists can be summed up in the single phrase: abolition of private property." In the past, our theory and practice of socialism always revolved around the theme of transferring private property to public ownership. We consistently treated public and private ownership as incompatible, strove to build a pure socialist system of public ownership, and mistook state ownership as the highest form of public ownership. But when we compare matters in terms of such indices as productivity or economic results, we confront an anomaly: "State ownership is not as good as collective ownership, which does not compare to private ownership." The "banqueting," the steadily rising consumption expenditures by social groups, and other irrepressible tendencies all stem from our "system of public ownership," under which nobody feels any compunction about feeding out of the public coffer. Thus we have to rethink our notion of socialist public ownership, as well.

New trends toward socialization of capital and greater use of joint stock systems of ownership are occurring in capitalist countries, and a variety of forms of rural cooperation have appeared in many countries. The early, sole-proprietorship form of private enterprise is now in decline, and stock companies and cooperative enterprises have become dominant forms of economic organization. So we also need a new understanding of these recent developments in capitalist societies.

In the first section of this article, I classified all enterprises into two major categories—state owned and operated, and privately owned and operated. State ownership has existed since ancient times and in China dates back several thousands of years. The nature of state ownership, however, is actually determined by the nature of

political power—whoever holds the latter controls the former. Nevertheless, I do not entirely reject state ownership, for as stated above I believe that, at China's current stage of development, there are three types of enterprises that ought to be restricted to state ownership (but the management of some of these firms can be turned over to private individuals). In the final analysis, transformation of state ownership is dependent on political democratization.

Private ownership and operation will come to predominate in most enterprises. And privatization works in tandem with the introduction of joint stock systems of ownership. Without the former, joint stock systems have no purpose for existence, and the practice of having state firms take shares in each other is contradictory to the nature of joint stock systems of ownership. It is hard to sort out the public and private elements of private stock companies (including those in which employees are shareholders), so we might just as well describe the companies as "mostly private but little bit public." This mixed form probably better facilitates harmonization of the interests of various quarters of society.

—To modernize, Marxist economics needs to learn from the following three areas.

- The experience of socialist countries during the 20th century (including the lessons to be drawn from their failures).
- The rich achievements of contemporary natural science.
- The scientific theory and methodology employed in Western economics.

I do not approve of indiscriminate copying of the conclusions and wording of either Marxist or Western economic works, and have discovered an "economic law" that is unique to China: Quality of goods and services is inversely related to the amount of commissions awarded. This "law" explains why poor goods sell so well on Chinese markets and even outstrip quality products. In such a peculiar environment, the notion of price competition advanced by Western economics does not work. This example simply illustrates that the fine fruits of other civilizations must first be absorbed in China's "tummy" before they can successfully be transplanted to her soil.

Democratization Seen Essential to Economic Reform

40050220b Beijing LILUN XINXI BAO
[THEORETICAL INFORMATION]
in Chinese No 180, 5 Dec 88 p 1

[Article by Correspondent Zhang Nan 1728 2809:
"Several Difficulties in China's Democratization"]

[Text] At the discussion meeting convened a short time ago in Beijing by various units, including the Beijing Institute of Social Economics, a doctoral student from Chinese People's University, Yuan Zhiming [6678 1807 2494], focused on three difficulties encountered in China's modernization.

First is neglect of democratic politics in the pursuit of economic modernization.

In current reform, we tend to seek speed in economic matters and stability in political matters. This tendency demonstrates the complexities faced in China's democratization. In reality, democratization and modernization influence each other, advance each other, and limit each other. Without democratic politics, not only will modernization become a flawed and incomplete thing, but it will exert a drag on modernization, and delay the advance of modernization.

Personal and vested interests are involved in the neglect of democratization. Democracy means abandonment of special privileges, and those who enjoy special privileges are in violation of democracy. Democratization means that the people select their officials. The deeply rooted vested interest stratum that a non-democratic system spawns is, without doubt, a tremendous obstacle to democratization. It resorts to all sorts of artifices to divert people's attention, thereby creating more serious and more enduring neglect of democratization.

Second is that most of the public yearns for modernization, but are not ready for democratization.

A democratic form of government has to be founded on the citizenry's subjective consciousness. As Jean Jacques Rousseau said, only when everyone is sovereign is it possible for a country to have a democratic system. The Chinese traditional consciousness spawned by the feudal society of the past 2000 years is not a main body consciousness, or one might say that the main body component in the traditional consciousness is very weak. As a result of the high pressure that feudal despotism exerted, and the small scale agricultural economy mode of production that looked to heaven for sustenance, human will, creativity, and initiative were severely repressed. This became the psychological basis on which the feudal system depended for its existence, and which the small-scale agricultural economy was hard put to destroy. Even today, a psychology of dependence and a lack of main body consciousness remains. Faced with a lack of main body consciousness, all our wonderful ideas of liberty and democracy either turn into daydreams or can only be built on sand.

Third is a trend toward democratization, but a lack of conditions and mechanisms for making a change to democratization.

The trend toward democratization in China stems from pressures from three quarters. The first is pressure from economic system reform. Development of a socialist commodity economy requires democratic politics to go with it. The building of a commodity economy mechanism is now underway, putting relentless pressure on the political system to make strides in the direction of democratization. Second is the pressures from the world situation. The economic, cultural, and scientific and

technical marketplace that now exists in the wake of opening to the outside world joins China in a continuum with the outside world. Western style democracy is not suited to China's circumstances, but the correlation between democratization and modernization, and between democracy and science unfolds ever more clearly before the Chinese people. At the same time, China's entry into the world requires doing things in conformity with prevailing world practices; thus, there is a process of the world entering China as well. Without a doubt, this is an assault by western style democracy; however, this assault cannot but produce urgent pressures for the building of a Chinese style democracy. Third is the pressure of the intellectual world. In modern times, the vanguard of democratic reform in China has always been the intellectuals. They are the first to come in contact with world civilization, and they possess an advanced consciousness and a strong sense of national responsibility. They have called for democracy time and time again, but no matter how they have called, their call has seemed weak and ineffectual; yet each time their fervor has greased the wheels of democracy. When their voice, pressures exerted by the world, and requirements for economic development fuse into a single entity, it will become a tremendous force for powering the democratization of China.

Article Cautions Against 'Hidden Perils, Backsliding' in Reforms

40050220a Beijing LILUN XINXI BAO
[THEORETICAL INFORMATION]
in Chinese No 180, 5 Dec 88 p 1

[Article by Sun Shaozhi 5685 4801 2535 and Wang Yizhou 3769 6654 5297: "Hidden Perils and Backsliding"]

[Text] China's historical reforms have been going on for a full 10 years, and the achievements scored by these reforms are generally recognized throughout the world. Nevertheless, we should clear-headedly realize that progress in reform can never be all smooth sailing free of obstacles. Today, when the economic situation has become grim, and price reforms have encountered setbacks, some countertrends in the course of reform have also shown up in social and political life.

1. The Trend Toward Egalitarianism Has Raised Its Head Once Again.

This trend is manifested in two ways for the most part: First is in resistance to a widening of differences in income for different people and among different strata regardless of whether these differences are founded on illegal activities or legal endeavors. Society and the public's just denunciation of "parvenus" and "racketeers" requires no mention, but, in addition, what can only be termed envy and jealousy have seized the opportunity to run rampant. The productivity standards that have enjoyed high esteem in recent years, and the slogan,

"part of the people becoming rich first" have encountered resistance to one degree or another, and the scales that weigh equality and efficiency have begun to tip again in favor of egalitarianism. Second is opposition to a widening of the degree and level of economic development of different regions without regard for whether this widening is the result of having been "conferred" by central government policies, or the result of efforts by individual areas themselves. In particular, as development strategies for coastal areas are proposed and begin to be carried out, some places have expressed intense dissatisfaction with new development, and have called upon "those above" to give local authorities greater "preference." Justified complaints and unreasonable demands are jumbled together, and both conflicts and difficulties, and debate and compromise come to the fore at the same time. As a result, after 10 years of reform, China once again raises with itself the difficult question of what is fair and reasonable.

The Trend Toward Administrative Interference Has Raised Its Head

The most prominent expression of this trend is the renewed tightening of controls over economic life and economic processes. Some of the authority delegated in recent years as a result of reforms and the removal of restrictions has been taken back, and some economists are preaching the "necessity for administrative control," restructuring of the environment, and cleaning up of companies has both hit at the "black sheep" and, in some areas, has also hurt enterprises just in process of getting underway. Thoughts about whether price reforms should ultimately follow plan prices (and not market prices!), whether prices should be adjusted, and how much prices should be adjusted is, in the final analysis, decided by the planning authorities; prices are not shaped in the markets or through free fluctuation. In social and political life too, various demands that emphasize centralization, uniformity, and "discipline" have appeared. In some places, and in some fields, some people even "replay an old tune," using political campaigns, or something resembling political campaigns, to solve problems involving "lack of unanimity" and "liberalization." Conversely, ideas and demands for reform of the political system that have been discussed in recent years, such as separation of party and government, separation of government administration and enterprise management, delegation of authority, and from each according to his or her ability have been pigeonholed intentionally or otherwise by bureaucrats. In quite a few sectors and units, though one cannot say reform has come to an end, it has certainly come to a standstill.

3. A Trend Toward a Unified Ideological Domain Has Raised Its Head

One cannot deny that during the past 10 years earth-shaking changes have taken place in the realm of China's cultural thinking. The extent of loosening in social life today simply cannot be compared with 10 years ago;

however, one has to realize that we have walked a tortuous road requiring much backtracking. Even today, people have yet to do needed thinking about and explanation of phenomena such as "clearing away spiritual pollution," and "anti-liberalization." Now when there is serious inflation and price rises in the economy, and the public grumbles somewhat about reform and about the leaders; and when confusion and vitality function at the same time and appear at the same time, people also cannot refrain from thinking about "unifying thinking," interfering in literature and art and restricting the news media, and using administrative and coercive "commanding officer's will" kinds of things to restrict cultural and ideational life, forgetting the tragic lessons that our Party has had during the several decades since founding of the country in the process of directing literature and art, and the ideational field. This trend toward a unified ideological domain bears a certain relationship to our past tradition of having made Marxism and the party leaders absolute, sacred, and doctrinaire. Therefore, today it is still necessary to advocate and adhere to the enterprising spirit proposed by the 3d plenum of the 11th Party Central Committee of seeking truth in facts, and emancipating thinking.

The Tendency To Value the "Rule of Men" and To Neglect the "Rule of Law"

Comrades in the field of ideological theory also like to reflect on the following question: Just what responsibility should we take for the difficulties, problems, and conflicts that have arisen today in our country's reforms? Did we make a maximum effort to spur society on to make a change from the "rule of men" to the "rule of law"? Such a postulation of it is not without pertinence. Today, quite a few people preach "elite politics," supposing that economic modernization can proceed separate from political modernization. They pin their hopes for reform on a small number of strata and a small number of people. Thus, they unconsciously (or consciously) shape a social frame of mind in which success for failure in reform is seemingly determined entirely by individuals and by policymakers (whether leaders, entrepreneurs, or "braintrusts"). One must say that this is a problem with reform theories. The historical experience of socialist countries has demonstrated time and again that the key to the occurrence of major mistakes and abuses lies in having no self-operating economic and political mechanisms, in the lack of a pluralistic and balancing structure, in people's wills always being greater than the power of the law, and in pinning hopes on outstanding people rather than on the system itself to make corrections when major problems or crises are encountered in society. History should become a mirror of reality.

An unprecedented opportunity is staring us in the face and the world is also watching China. Can reform continue to move ahead? Can the Chinese eliminate the hidden perils and halt backsliding? Can our country keep up with the pace of the modern world? We have no reason not to make a reply.

Fewer Agencies at County Level Advocated

40050225 Beijing ZHONGGUO JINGJI TIZHI GAIGE
[CHINA ECONOMIC SYSTEM REFORM]
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[Article by Deng Shuisong 2429 1807 5478 and Wen
Zhihua 2429 1807 5478: "Why Are There So Many
'Bureaus' at the County Level?"]

[Text] In early 1984, Nan County in Hunan Province reformed its county-level agencies. The 61 county-level agencies set up at that time represented an increase of 16 over the 45 of 1980. Today there are 124 regular agencies in the county at the semi-bureau level or above, including 101 bureau level ones, 23 semi-bureau level ones, and an additional 71 temporary agencies at the bureau level or above. As of the end of 1983, 7,663 people were employed in administrative agencies throughout the county, and by the end of 1987, the number had risen to 9,392 for a 1,729 increase. The increase was fastest among organizational cadres. Currently, bureau level directors and deputy directors in the county number 848 in a 3.15-fold increase over the 269 of 1983. In 1987, county expenditures for administrative expenses amounted to 4.518 million yuan versus 1.85 million yuan in 1982, a 2.44-fold increase. Budgeted expenditures for 1988 total 5 million yuan.

The bloating of county-level "bureaus" poses a series of conspicuous problems, one of which is the ever more noticeable conflict between higher and lower level departments, government speaking with too many voices, a decrease in local overall control over economic functions, and a lack of coordination and balance in government. Second is too many control agencies, each of them working away to justify their existence. This creates a situation in which lower levels spend their time satisfying higher levels, leaders at every level concentrate on dealing with their superiors, and all levels are unable to do their normal work. Functions are narrowly defined; consequently, one agency impinges on the role of another, which seriously damages work efficiency.

Reasons for the bloating of county-level agencies include not only the poor preparations made for reform of county-level agencies, and acting impetuously, but primarily the inability of the old agency system to respond to the new economic system, thereby forcing agencies to splinter constantly. As the commodity economy constantly develops, there has been a steady attenuation of the scope of administrative agency functions, and a gradual expansion of their fields of endeavor. Today, administrative agencies continue to apply to the commodity economy the same formulas they used to administer the product economy without corresponding changes in work functions and without improvement in work efficiency. As a result, not only has administration lost its effectiveness, but it has produced side effects that get in the way of, and limit development of the commodity economy. Under these circumstances, administrative

units have not taken as their point of departure fundamental measures such as changing their ideas, changing functions, and updating management methods and techniques. Instead, they have relied on a steady breaking down of the structure and the form of organization of agencies to solve conflicts. This has brought about a situation of finer and finer divisions, and more and more divisions. At the same time, each agency doing things its own way, and all channels emptying, issuing instructions, and exerting pressures downward are also reasons for the bloating of county agencies that should not be overlooked.

How can the bloating of county-level "bureaus" be reduced? We have some recommendations as follows:

First, to establish a basic model for county-level agencies that is tailored to needs. County-level agencies country-wide should be set up on the same model with only minor differences. The whole country may be divided into several different types of areas, a basic model being established for each type. This model should be basically fixed yet highly flexible, meaning it should be made up of permanent agencies and variable agencies. The permanent agencies, no matter the type of model, should be agencies common to all. They should be clearly defined by central authorities. These are main line agencies responsible primarily for providing advice, overall supervision, checking of statistics, the development of intellect, and legislation and law enforcement. Variable agencies means different kinds of agencies that should be set up in different regions. The character of most of these kinds of agencies should also be clearly defined, and for the minority that cannot be clearly defined, the central authorities and provinces should also decide the principles for their establishment. Thus, when agencies are reformed, "no big changes but only little changes" need be made, meaning that changes will be made in the prescribed model of only a small number of regional agencies. Once agencies have been brought under control, the numbers of their personnel may be set on the basis of the principle of "no change in agencies, and no change in their complement."

Second, the county-level autonomy in overall planning that takes the whole situation into account should be expanded, and the administrative authority of higher levels should be reduced in order to maintain the overall integrity of local control over the economy. Every effort should be made to control and to reduce the number of direct control agencies that higher authority sets up in local areas, to reduce higher authority control over local personnel, financial and material resources, and to increase correspondingly local control authority over agencies established by higher authority. Local agencies that have been taken over by higher authority should be returned to local control, the county-level gradually being built into a complete grassroots unit.

Third, authority to examine and approve the establishment of agencies should be easy to withdraw but not easy to delegate. When powers are delegated in the course of

government streamlining, authority to examine and approve the establishment of agencies should not be delegated along with other powers. It should be kept in the hands of the CPC Committee and the government of the next higher level or several levels. Provincial CPC committees and the provincial government should have to approve the establishment of county-level agencies, and neither provincial nor municipal authorities could direct the establishment or elevation of county agencies on any pretext whatsoever.

Fourth, when government agencies are established, most should perform a variety of functions; only a few should be specialized. A specialized division of labor within agencies is to be encouraged, external liaison being changed to internal liaison.

Fifth, reform of county-level agencies must be done in concert with overall reform. 1) It must be carried out along with the reform of central government, provincial, and prefectural agencies, every effort being made to change the role of prefectures from direct involvement to providing guidance. 2) It must be done in concert with reform of the personnel, banking and material systems, so that agency reform can be carried out smoothly in a fine external environment.

Sixth, existing temporary agencies should be phased out over a period of time. Work that cuts across jurisdictional lines should be transferred from the responsibility of leading comrades put in charge of such work to coordinated handling by functional units concerned, with no additional establishment of temporary agencies.

NATIONAL AFFAIRS, POLICY

Study of Stagflation Urged

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3 Jan 89 p 3

[Article by Wei Jie 7614 2638 and Zhang Yu 1728 1342:
"Seriously Study the Phenomenon of Stagflation"]

[Text] In the present process of economic readjustment, there is a need to study how to properly handle the relations between credit tightening and the development of production. There is especially a need to guard against the likely phenomenon of economic stagflation. The so-called phenomenon of stagflation means the simultaneous existence of inflation and stagnant economic development related to inflation in economic life. Since the end of the 1970's and the early 1980's, the phenomenon of stagflation has appeared in many socialist countries and tended to be increasingly serious. It has begun to receive universal attention. This phenomenon of stagflation first finds expression as increasingly serious inflation. Existing simultaneously with inflation is stagnation, with mutual stimulation. This means stagnant economic development closely related to inflation.

The Potential Threat of Stagflation Cannot Be Overlooked

Compared with some socialist countries, economic development in our country is undoubtedly a little better. But we cannot fail to fully note that inflation is also very serious in our country. From 1985 to 1987, the average annual rise in the index of commodity prices reached more than 7 percent. It was estimated at over 15 percent for 1988. Our economic growth rate in these few years has been in a stage of high-speed, and even unusually high-speed development, all along. But our high-speed growth in these few years has been mainly achieved through input by extension. Improvement in economic results and technical levels has been very slow. There has at times even been deterioration. The situation of the industrial mix being irrational has also been very serious. To control inflation and stimulate the healthy development of the economy, we are now adopting a policy of tightening credit. We will inevitably meet with resistance from the strength of income now on hand and the strength of the structure. Failure to handle things well will not only affect the pull of effective demand but also hamper supply growth, thus leading to a deeper situation of stagflation. Therefore, some people worry that the present potential threat of stagflation in our country will become more and more serious. This is not unjustifiable.

What should be stressed is that the phenomenon of stagflation in the socialist economy is not a new phenomenon that has appeared since the reform. It would have begun to form even in the traditional system. Some people consider that in the traditional system, and especially in the latter period of the traditional system,

slow economic development was a matter that was generally known. But inflation does not seem to be very conspicuous. Therefore, this can hardly be described as stagflation. In fact, it was then just due to the enforcement of a highly centralized mandatory plan and a system of fixed prices that inflation had not found expression in the rise in commodity prices and, instead, assumed the concealed form of a commodity shortage. Stagnant economic development and a shortage, with demand exceeding supply, was actually a manifestation of stagflation.

The Causes of the Phenomenon of Stagflation

The phenomenon of stagflation in the socialist economy is different from the crisis of stagflation facing Western countries. It has its own peculiar system basis and is a product of a peculiar system. Concretely speaking, it is mainly the following system-related factors that lead to the phenomenon of stagflation in the socialist economy:

1) The vagueness of property relations. In the existing socialist economic system, the relations among power, responsibility, and profit are vaguely defined in regard to state-owned property, with the restraints of the budget weakened. This has, on the one hand, led to unrestrained growth of overall demand. On the other hand, it has led to the lack of flexibility of supply. This easily leads to a situation marked by both stagnation and inflation. This is firstly because whether it is the government, departments at various levels, enterprises or individuals, there exists a strong impulse for investment and consumption. Due to a weakening in budgetary restraints, an enterprise's primary goal is to pursue maximum income. It lacks the initiative to seek self-accumulation. Given the absence of self-accumulation and also a keen demand for funds and input from outside to further pursue more income for self, a swelling in investment and consumption is brought about. Meanwhile, with a weakening in budgetary restraints, various areas and departments prompted by their own interests often go beyond the capacity for revenue and credit in carrying out large-scale investment and increasing group consumption, thus stimulating a sharp rise in investment and consumption. Second, given vague relations of production and weakened budgetary restraints, there is naturally less efficiency in providing supplies. On the one hand, due to such factors as irrational property relations, the absence of effective competition, the lack of drive in enterprise production, too little inclination toward accumulation, and insensitivity to prices, resources cannot be put to the fullest use. Technical progress slows down and labor productivity efficiency cannot be quickly raised. On the other hand, due to vague property relations leading to an underdeveloped market for key production elements and an imperfect mechanism in concentrating funds, the combination of key production elements can hardly be perfected as quickly as possible to realize effective deployment. This results in a situation of advanced enterprises suffering from a shortage of resources and

backward enterprises operating beyond capacity. Economic results thus deteriorate, exacerbating the contradiction between supply and demand.

2) The administrative monopoly of the market. In the existing socialist economy, given weakened budgetary restraints and the lack of competition, and especially given a serious shortage, state-owned enterprises are able to constantly appear on the market in the role of monopolists. Therefore, they often realize their own interests not through lowering costs but through raising prices. Even enterprises with a relatively low production level and with very poor economic results can also often mark up prices. This leads to the simultaneous existence of stagnation and inflation. The more serious the shortage, the higher the price of a commodity and thus, the higher the production costs of the buyer enterprise. Therefore, an enterprise can, given the stagnation of production, maintain relatively high prices for commodities, causing the appearance and development of a stagflation situation.

3) The simultaneous existence of the strength of income and the strength of employment. In the socialist economy, the clash between wages and profit has disappeared. The strength of individual income has formed. Moreover, the pursuit of maximum personal income has become the fundamental drive in enterprise development of production. Given irrational property relations and weakened budgetary restraints and also the lack of a labor market, the motive to pursue increased personal income is often likely to turn into a blind scramble for income in a departure from the principle of contributing labor. Such strength of income, can, on the one hand, lead to wages and commodity prices rising in turn. On the other hand, it can reduce the stimulating effect of wages and interfere with an improvement in labor productivity. In the socialist economy, the strength of employment is also an important economic characteristic. What society first pursues in employment is universal employment. Enterprises also very seldom increase or reduce the number of laborers in light of production development conditions. There is, therefore, a large degree of "unemployment with people on the job." This results in increased enterprise costs, reduced enterprise efficiency, increased consumption not guaranteed with supplies, and a retarded pace in the restructuring of the economy, thus giving rise to inflation that is accompanied by stagnation.

Ways of Eliminating the Phenomenon of Stagflation

An expedient to eliminate the phenomenon of stagflation is to control inflation through a tight credit policy and to keep inflation within limits of what can be absorbed by society, creating a most fundamental condition for economic development. A radical measure to eliminate the phenomenon of stagflation is to deepen reform in an overall way and do away with the system basis that gives rise to the phenomenon of stagflation through deepening the reform, thus fundamentally curing such "a system disease" as stagflation. As far as the control of the phenomenon of stagflation is concerned, the former brings

quick results, but the solution is not a thorough one. The latter allows a fundamental cure, but with slow results. Therefore, in the process of controlling the phenomenon of stagflation, we must, in light of the actual conditions, flexibly and effectively alternate the two methods, enabling them to complement each other and assert their respective strengths. Under conditions in which the phenomenon of stagflation is serious and reform cannot bring very quick results, it is necessary to quickly control inflation through expedients. This provides a bit of relief to a grim situation and also provides a fine prerequisite for promoting measures for a fundamental cure. But after temporary and limited goals are achieved through expedient measures, no opportunity should be missed in taking radical measures and deepening the reform in an overall way. This strategic choice—quickly resisting the serious pressure of stagflation through expedient measures and thus enabling radical measures to be introduced at deep levels under the cover of expedient measures—is the only correct way to control stagflation at present.

The expedient measures to control the phenomenon of stagflation call mainly for withdrawing money from circulation through a credit tightening policy. As far as current realistic conditions are concerned, there are five ways for the state to withdraw money from circulation: a) Withdrawing money from circulation through the method of stopping the flow. Its typical pattern calls for tightening credit; b) Withdrawing money from circulation through compulsory administrative means. The typical pattern is to reduce the scale of construction and group purchasing power; c) Withdrawing money from circulation through a currency devaluation. Its typical pattern is a universal rise in price; d) Withdrawing money from circulation through the issuance of government bonds; e) Withdrawing money from circulation through the method of selling state-owned assets, including housing and state enterprises. These five ways actually all involve risks. The first three, in particular, would not only interfere with normal economic development but would also give rise to social dissatisfaction. By comparison, the fourth and fifth ways are a little better. They are unlikely to involve too many defects. They are also linked to a deepened reform of the system of ownership. They help in stimulating the development of the reform. Therefore, we should focus on the fifth way, and, at the same time, properly adopt the first four ways. In sum, in withdrawing money from circulation, we must not make the people feel that the state is taking money out of their pockets and exploiting them. Instead, we should withdraw the excessive amount of money on the market from circulation through a relatively rational exchange of equal values. As far as this is concerned, it is relatively appropriate for the state to sell its own assets. Selling national debt is also a way of exchanging equal values between the state and the people. But when this was practiced before, with some variations, it was not much liked by the people. People are unwilling to buy such debt, especially with the interest rate on the national debt falling behind the rise in commodity prices. Therefore, we should mainly resort to selling national assets.

A radical way to control the phenomenon of inflation is an overall deepening of the reform to achieve these goals—bringing the restraints of a fixed budget to bear, getting rid of monopolies of an administrative nature, weakening the strength of employment and the strength of income, and rooting out the system basis on which the phenomenon of stagflation relies. To achieve these goals, we must set up a new property system through the reform of the enterprise system, establish a competitive market system through market development, and create an indirect macroeconomic regulation and control system through reforming the macroeconomic management system. Therefore, to stimulate the reform of the enterprise system, the market system, and the macroeconomic management system and enable the reforms in these three respects to be linked up is the only effective way to eliminate the phenomenon of stagflation. The reform of the enterprise system chiefly aims at stimulating its reform in two respects: a) Closely linking up enterprise legal ownership, economic ownership, and operation decision-making. The main pattern to be thus formed chiefly calls for thoroughly eliminating unnecessary administrative intervention. The aim is to enable small enterprises to form a fine enterprise system. b) Bringing about a thorough separation of legal ownership, economic ownership and operation decision-making. The main pattern thus formed is a joint stock system. The aim is to form a fine enterprise system for large and medium-sized enterprises. In market development, we must chiefly achieve the following: a) Bring about a good order of market signals—enabling prices, interest rates, wages, and other market signals to necessarily form in the market mechanism and allowing the establishment of mutually stimulating internal relations among them. b) Form a good order of market behavior—enabling enterprise market involvement behavior, profit-making behavior, and competition behavior to be necessarily standardized. c) Establish an indirect macroeconomic regulation and control system. The main aim is to weaken administrative regulation and control by the state and use market demand in reforming the state's macroeconomic management system—enabling the state's activity of maintaining market operations to be standardized in regard to behavior, objectives, process, and so forth. The reforms in the above three respects should be stimulated by adopting the way that allows them to proceed at the same pace.

Policies To Control Inflation

40060221 Beijing JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese
No 11, 20 Nov 88 pp 12-19

[Article by Peng Honglin 1756 7703 2651: "The Unique Mechanism of Cause and Solution of China's Inflation"]

[Excerpts] Along with the deepening of the reform and the increasing commercialization and monetization of China's economy, the inflation problem has gradually emerged from obscurity as a result of the crumbling of the traditional system and has become today's number one problem in economic development. To check inflation as soon as possible, we must make a concrete analysis of the cause,

type, and characteristic of China's inflation. Undoubtedly, the rich theories and practical experiences of other countries will be very useful to us in this regard. [passage omitted]

II. The Unique Mechanism Causing China's Inflation

According to modern Western economic theories, there are four types of inflation: demand-pull, cost-push, demand-and-cost-push, and structural. China's current inflation appears to be within the framework of these four types, but the mechanism of its cause is quite unique.

A. The demand-pull factor. The level of prices rises when the aggregate demand outstrips the aggregate supply of society. This is one of the causes of China's inflation. According to the Western "demand-pull" inflation theory, excessive demand and its pull on prices comes directly from increases in money supply ("the rudimentary currency quantity theory"), variations in interest rates, employment, and resource utilization followed by changes in money supply ("the Keynesian currency theory"), or the interaction of the supply and demand functions of money ("the refined currency quantity theory"). In the final analysis, they come from changes in the quantity of money. Therefore, as long as money supply is under control, "demand-pull" inflation will be eliminated. In China, demand-pull inflation does have something to do with the excessive supply of money, but it also has something to do with the fact that money supply has been forced to keep up with price increases. Excess money supply is the cause and the outcome of the expansion of demand.

In China, the aggregate demand of society consists of three parts: demand for individual consumption, group consumption, and investment. The demand for individual consumption is determined by the level of income; therefore, it is a dependent variable in the interrelations of money supply. This part of demand can be regulated through the control of the money supply. The demand for group consumption and investment, however, are different. Unlike the demand for individual consumption which is kept strictly within the limit of income, the scale of demand for group consumption and investment tends to expand due to a lack of any internal self-restraint mechanism. Therefore, it is usually an independent variable in the relations of changes in money supply. In reality we have seen numerous cases like this. When a project is half finished and its original budget of investment is all gone because its design has been changed (or because new projects have been added), the state has no choice but to increase investment. Structurally, the demand for group consumption is not very responsive to prices, nor is the demand for investment extremely responsive to the guidance of projected long-term profit rates. These two types of demand have deep roots in the system and an extra-economic social, political, and cultural background, which is not and cannot be

explained by Western "demand-pull" inflation theory. Automatically copying Western currency control theories cannot effectively control such demands.

B. The cost-push factor. Another major cause of China's inflation is cost increase, which pushes prices up. Cost increase can be attributed either to the fact that wages have increased faster than labor productivity or to those enterprises which have taken advantage of the fact that they control the prices and shifted wage increase to prices in order to avoid lowering their profit rates. These are the two arguments of Western "cost-push" inflation theory. "Wage-push" and "profit-push" theories are also two practical bases of the "cost-push" inflation in China. But since China's inflation rate is much higher than the price increase resulting from the shift of wage increase, the explanation provided by Western "wage-push" and "profit-push" doctrines is obviously insufficient.

The unique mechanisms of China's "cost-push" inflation are as follows:

1. Many expenses are figured into wage and cost. Such expenses are often incurred not by objective economic reasons but by social pressures such as various kinds of apportionment and obligation to give dinner parties and presents. This is why cost increase is much greater than wage increase.

2. Irrational cost expansion and insufficient cost compensation coexist. Land, which is considered as a source of value in the West, has not been figured into cost over the years. Scarce water resources have not been handled at the level of a resource until today. Expenses incurred by resource prospecting, which is a component of the mining industry, are covered by state revenue and are not reflected in the cost of production of the mining industry. Subsidies are in essence part of the price of labor and, therefore, should be figured into the cost of production and compensated for by product prices. But in China, subsidies are covered by state revenue. The average annual depreciation rate of fixed assets is only 4.7 percent in China, which cannot even guarantee full compensation for visible wear and tear, not to mention invisible wear and tear caused by technological progress and increased labor productivity. Due to this and the devaluation of depreciation funds caused by inflation, many fixed assets are losing their value every year. Environmental protection has gradually become enterprises' responsibility and a part of enterprises' production and management activities. Labor used for this purpose can also create value; therefore, it should be reflected in the products of enterprises. But in China, environmental protection expenses come from different sources, and no rule requires that they be included in the cost of production. These insufficiencies in cost compensation have offset the "cost-push" force. Once "things are set to rights," China's "cost-push" inflation will worsen. This is a reality we must face.

3. The cost of raw materials is the most important factor affecting the rise of the cost of production. Sometimes the price rise of raw materials is planned; sometimes, it is caused by poor management and increased waste. But most importantly, the price of raw materials is raised illegally. "Official profiteers" have the control of scarce raw materials and abuse that power to buy and sell raw materials which have been bought and sold several times and whose prices have been raised at every level. They have become a serious obstacle to the establishment of a new order in China's commodity economy. They have caused the cost of production to increase in many aspects: price, inventory, the continuity of production, etc.

4. The pricing system of enterprises has caused the "profit-push" force to expand. Sufficient evidence indicates that the increase in the price of a product is higher than that of the cost of production in many enterprises. When cost increases, profits will also increase. Consequently, although the prices of basic raw materials in China have increased substantially in recent years, China's pricing system and price relations have not been changed fundamentally because the prices of processed and manufactured goods have also increased accordingly. The inferior position of raw materials in price relations still needs readjusting and the "cost-push" force it resulted in needs to be released again. This is another unique aspect of the "cost-push" inflation in China.

C. The structural factor. China's inflation can also be attributed to structural factors, which mainly include: 1) The structural change of supply has failed to keep up with that of demand, some products are oversupplied while others are in short supply, shortage and overstock both exist, exacerbating the contradiction of imbalance between the aggregate social supply and demand and resulting in price rises. 2) The difference in the increase rates of labor productivity and the wage race among different departments have caused wage increase to be greater than the increase of labor productivity in those departments which have a lower rate of increase in labor productivity, leading to "wage-push" inflation. 3) The dual structure of the economy has formed two distinct features for labor flow in rural areas. First, laborers have swarmed to the tertiary and processing industries, thus increasing the demand for industrial consumer goods and basic raw materials. Second, these enterprises, which lack the efficiency of economies of scale, have reduced the total supply potential of society by taking limited resources away from other more efficient enterprises, thus pushing inflation from sides of both supply and demand.

The unique mechanisms of China's structural inflation are as follows:

1. The incompatibility between supply and demand structures has been caused by the rigidity of the investment system and the lack of a market for elements of production. The guiding power of price and projected profits has been relatively weak.

2. The wage race is the residue of the pernicious influence of egalitarianism.

3. Developing the tertiary and township industries to solve the problem of surplus labor in rural areas is equally as important as stabilizing prices.

It is thus clear that China's current inflation has a strong Chinese characteristic and a profound economic, political, and cultural background. It is the result of the combined effect of economic and noneconomic problems. A typical example is: The dual track pricing system, which was promoted to optimize the allocation of resources (economic problem), has produced "official profiteers" due to the intervention of those who abuse power to seek personal gains (extra economic power), thus creating confusion in the economic order of society (extraeconomic problem), which has in turn tilted still further the imbalance of resource allocation (economic problem). Relying on economic measures alone cannot check such inflation; relying on certain theoretical models alone is worse. It needs a comprehensive solution, flexible measures, and the art of coordination in policies.

III. Choices of Anti-Inflationary Policies

A. Eliminate the anticipation of inflation.

Regardless of the cause of inflation, the final manifestation of inflation is always the depreciation of money. Milton Friedman once said: "The reason that everyone is willing to accept money and thinks it has value is because everybody else also thinks it has value. The reason that everyone thinks money has value is because his or her own experience has proved that paper money has value. These concepts which reinforce each other are make-believes created on the basis of reality." Therefore, eliminating the anticipation of inflation and establishing the identity of monetary value is a primary link in checking inflation.

The anticipation of inflation is caused by real inflation which, however, in turn generates real inflation. Their interaction usually goes through three stages: During the first stage, prices begin to rise, but most people still believe in the value of money (even though money supply increases faster than prices) and the circulation of money remains normal. During the second stage, prices continue to rise at a greater rate and on a broader scale, and people begin to question the value of money, fear the depreciation of money, and engage in panic buying. They would rather hold goods than save money, thus increasing the velocity of money circulation, creating the "multiplier effect," and increasing the amount of money in circulation. During the third stage, price increases worsen and money depreciates (even though actual money supply has not increased or has increased very slightly). This shows that the process of checking real inflation is also the process of eliminating the anticipation of inflation. Once inflation is under control, the anticipation of inflation will disappear automatically.

But inflation cannot be checked until the anticipation of inflation is weakened and eliminated. So eliminating the anticipation of inflation is also an independent activity. At present, the Chinese people have already developed a habit of anticipating inflation, and economic activities guided by such a mentality are sharpening the contradiction of inflation. "Psychotherapy" is a must. Argentina has been fairly successful in this area. By indefinitely freezing prices, wages, and the charge standards of public facilities, Argentina has made their people feel that there is no more inflation, thus eliminating their crisis of trust. This practice is not necessarily suitable for China, but we can learn something from their experience. That is, we should let the people gain confidence from the determination of the state.

For this, we should resolutely carry out a short-term economic policy that places first priority on stability. Through wide publicity, we should increase the openness of the state's economic life to give people an idea of the future behaviors of the government, enterprises, and individuals and ensure that anti-inflationary policy measures achieve psychological success before they achieve objective success during actual implementation.

B. The demand-controlled money policy.

Inflation is, in the final analysis, a monetary phenomenon; therefore, monetary policy is the basic policy to check inflation. About monetary policies, we must understand the following two things: 1) Tightening can not necessarily eliminate inflation, but an overly loose monetary policy is bound to result in inflation; therefore, we need to know exactly how "loose" or "tight" our monetary policy should be. 2) Whether or not tightening can eliminate inflation depends mainly on whether or not it can acquire the coordination of other policies. Relying solely on anti-inflation monetary policies without the coordination of other policies may lead to economic stagnation and increasing inflation.

There are usually two approaches to monetary policies:

1. Control money supply. This is a direct anti-inflationary measure. The FRG is the most successful example in using this policy. Through the minimum reserve, discounting, and credit policies, they have effectively stabilized the value of currency. But we should not copy their practice and hope for similar results because our environment and conditions are different.

First, the level of prices is determined not only by the circulation but also by the stock of money because consumption is determined by "permanent income," not immediate income. The control of the money supply in the FRG was carried out on the basis of a monetary reform (discarding old currency and issuing new) when the stock of money was very small (close to zero) and the price level was basically determined by the circulation of money. Under these conditions, prices can be stabilized if the circulation of money is appropriately regulated.

Due to excessive money supply in recent years, China has accumulated a huge stock of money, which has affected the price level to a still greater extent. Because of this, it is difficult to stop, within a given period, the inertial force created by the stock of money from pushing the price level upward even if the circulation of money is properly controlled.

Second, one of the reasons that the FRG has achieved success in the control of currency is because its central bank is independent and the federal government cannot make overdrafts on the bank. Another reason is that the federal bank has complete functions and can utilize, with high proficiency according to objective needs, three major instruments (the reserve deposit rate, the official discount rate, and open-market operations). In China, the central bank is not totally independent, and the integrity and systematicness of its policies cannot avoid being damaged by the overdraft practices of the government. The functions of the central bank in China are also incomplete. It did not begin to exercise the function of money management until 1984 (in the past, it mainly served as a money supplier and a settlement center). Many of its businesses have just been started. Because of this, it does not have the guarantee of a reliable organizing system and mechanism for the control of the money supply.

In comparison, the banking system in Italy is closer to our situation. The central bank of Italy is guided by the treasury department of the Italian government and lacks independence. The treasury department is free to make overdrafts up to 14 percent of its annual budget expenditure on the open account with the Bank of Italy. Under this condition, by choosing a correct intermediary goal controlled by the monetary policy and developing open-market operations, the Bank of Italy has successfully changed direct to indirect credit control within 10 years and maintained a sustained growth in the total amount of domestic credit, thereby reaching an overall basic balance between the aggregate supply and demand of society. There is no doubt that their experience is much closer to our national reality and more useful to us. However, there is still a problem with organizational mechanism. Compared to the model of the FRG, the Italian model demands greater flexibility and adaptability on the part of the central bank.

Judged by our national reality, our monetary policy should be simple and easy to carry out, and require little operational techniques.

1) Adopt a flexible annual growth rate for money supply in accordance with the need of proper economic growth to reconcile possible contradictions between monetary and financial policies.

2) Separate state financial departments from banks, have the government issue treasury bonds instead of making overdrafts on banks, improve the treasury bond market, and make the central bank guarantee the sales of treasury bonds.

3) Keep the total amount of domestic credit under a fixed percentage of gross national product (or gross social product).

2. Use the lever of interest rate. Interest rate is one of the levers we can use to check inflation. Maintaining a positive interest rate, namely higher than the inflation rate, is an indispensable condition for eliminating the anticipation of inflation among the people. However, the effects of interest rates are limited. If we raise the interest rates of savings deposits, government and enterprise savings will not be affected because they are not very responsive to changes in interest rates; personal savings may respond to a certain degree, but personal savings are affected also by many other factors. Raising the interest rates of loans can discourage investment and is therefore conducive to checking the expansion of investment demand. However, since interest rates are a cost element, raising interest rates can result in rises in the cost of production and push prices upward. Excessively high interest rates can affect the supply potential of society and create more disadvantages than advantages in the long run.

Under the current condition where the inflation rate is higher than the interest rate and a negative interest rate has occurred, it is obviously necessary to raise interest rates. However, we should pay attention to preventing the "spiral effect" caused by the interest rate chasing the inflation rate. At the same time, we should carefully handle the relation between bank interest rates and the interest rates of various bonds.

C. The direct management and indirect regulation and control of prices.

The price level is formed as a result of enterprises' pricing behavior. Since state enterprises occupy the dominant position in China's economy, their pricing behavior plays a decisive role in the rise and fall of the price level. Correctly managing, regulating, and controlling the pricing behavior of state enterprises and guiding it to play a role in checking inflation is an important anti-inflationary policy measure.

There are two ways to manage, regulate, and control the pricing behavior of state enterprises: 1) Have the state set prices directly at a level lower than market prices. This is China's usual practice. The FRG also used it to fight inflation. Practice has proved that this method is unscientific. First, artificially low prices cannot reflect the supply and demand of the market nor reflect the scarcity of resources; therefore, they cannot guide the optimized allocation of natural resources. Second, policy-related low prices are bound to demand policy-related subsidies which often cover up management-related losses. The long-term effect of this practice includes inefficient economic movements, improper allocation of natural resources, a small supply potential of society, and a lack of material guarantee for long-term price stability. 2) Establish and perfect the market system, create a fully

competitive pricing environment, and put an end to the monopoly of state enterprises in pricing. This is a practice of indirect regulation and control. The United States has long been using it as a basic method of price control. This method is rational mainly because it focuses on the dynamic, long-term rationalization of pricing mechanism. Prices formed through such a process can put an end to ineffective supply and use and maximize the efficiency in the use of natural resources; therefore, they are conducive to the long-term stability of prices.

The pricing behavior of state enterprises in China has not been rationalized. This is because although there is no more direct state control, the market system is still imperfect and state enterprises still have the monopoly. In recent years, the introduction and development of different forms of organizations, such as horizontal enterprise coordination, enterprise groups, and mergers have actually strengthened the monopoly status of state enterprises. The emergence of these organizational forms has played a positive role in the specialization and coordination of production, preserving the good and eliminating the bad, and increasing the ability of aggregate social supply. However, as long as the increase of aggregate supply falls short of aggregate social demand, there will be no need for integrated bodies of enterprises, enterprise groups, and trusts to compete for market, and price monopoly will inevitably result. Even if the aggregate social supply equals to or surpasses the aggregate social demand, these new forms of organization will be more likely than those scattered enterprises in the past to reach agreements to avoid competition and monopolize prices. Therefore, judged from the angle of holding down prices, these forms of organizations are playing a passive role. We are positive that the behavior of price monopoly resulting from the status of monopoly is to be blamed for the inflation of recent years in China.

Nations with a developed market economy have always stressed the free pricing mechanism of enterprises, but state economic interference has grown increasingly stronger and its effect on prices has become increasingly deeper, which seems to be contradicting. In fact, they have mastered the true meaning of the dialectical relation between freedom and intervention. Free competition is effective. Free prices can optimize the allocation of resources. Because of the disparity in the effectiveness of competition, competition will inevitably lead to monopoly and negate free competition (and prices). In order to maintain the order of market competition, we must rely on forces outside the market—state intervention. Intervention is to protect freedom, not offset it. U.S. and Japanese intervention have been carried out indirectly through policies, rules, and regulations designed to eliminate monopoly. In our current economic environment, although promoting the enterprise free pricing system may affect the progress of deflation, going back to price control can weaken the material basis of deflation and exert more harm. Therefore, state intervention in prices must be strengthened along with the

decontrol of prices. We should "reduce pressure" on prices themselves but "increase pressure" on the market environment from which prices are formed.

D. Indexation—slow suicide.

Recently China has adopted a savings insurance policy to link the interest rate of savings deposits to price indexes, thus beginning the prelude of indexation. The direct effect of this policy may be preventing bank runs and stabilizing the trend of savings, but its overall effect is still hard to tell. If the general indexation of income (linking price indexes to wages, pensions, quotations, and expense budgets of all economic contracts, and various bond incomes) is used as a policy to tackle inflation, it would be the same as committing suicide slowly. This is because:

1. General indexation is bound to create the feeling of a lasting inflation, perpetuate the anticipation of inflation, and cause people to suspect the government's sincerity and determination in fighting inflation. Once the people are convinced that inflation is permanent, it would be very difficult to curb inflation.

2. Indexation is carried out according to price indexes, but the fact is that people suspect the accuracy and reliability of all price indexes. "Extensive indexation in any country, where there is a constant gap between actual and projected inflation rates, will further accelerate inflation."¹

3. The rigidity of wages and interest rates caused by indexation will inevitably prolong and accelerate the cost-push inflation.

In other words, indexation means that inflation will become a lasting, regular phenomenon, and prolonged inflation can hurt the long-term growth of the economy, which has already been proved by the practices of many countries.

E. Removing the extra-economic causes of inflation once and for all.

The most difficult part of checking China's inflation is probably removing extra-economic causes. In recent years we have adopted many administrative measures concerning the expansion of group consumption, such as strict examination and approval procedures and target control, but the result has been very insignificant. We have also promulgated many laws and regulations concerning the phenomenon of "official profiteering" (such as regulations on the issue of "commission," which was promulgated not long ago) and investigated some cases, but the result has been equally insignificant. The reason is that these policies have not touched on the essence of the problem. Judged from the above-mentioned phenomenon, the occurrence of "official profiteering" is linked to the price disparity caused by the dual-track system, and the expansion of group consumption is

linked to the softening of the restraint of group budget. Therefore, the surface reform includes abolishing the dual-track system, implementing the unified market pricing system, hardening the restraint of group budget, and enforcing strict financial and economic disciplines. But "official profiteers" are in essence a product of mixing shortage with power. Since shortage cannot be eliminated completely and market prices cannot cover all commodities (even in countries, which practice the market economy, the prices of important energy resources and the fees of communications, transportation, and other public facilities are also set by the state), abolishing the dual-track system cannot completely eliminate "official profiteers" who abuse power to seek personal gains. Group and state interests do not always fully coincide. State interests are communal whereas the interests of one group increase as the interests of another group decline. Since there is no clear demarcation line between the relations of property, every group certainly tries their best to get a bigger share. The so-called hardening budgets and enforcing strict disciplines must be done by designated people who must belong to certain special interest groups. Therefore, no matter how firm a budget is, it must have some kind of flexibility for "where there are rules, there are exceptions." We can tell that the occurrence of such phenomena as expansion of group consumption and "official profiteers" is closely linked to China's current economic and political systems. The only way to eliminate such phenomena once and for all is to carry out supplementary economic and political reforms. The most important of all is to thoroughly reform the current property rights system under which the relations of affiliation are unclear.

Footnote

1. *Essays on Inflation and Indexation*, compiled by the American Business Association

Four Major Schools of Thought on Economic Reform

40060231 Beijing JINGJIXUE ZHOUBAO
in Chinese 25 Dec 88 p 4

[Article by Wu Jiandong 2976 1696 2639: "Commentary on the Four Major Theoretical Schools in China's Economic Reform"—passages in italics as published]

[Text]1. The "Delegation of Authority and Making of Concessions" Line of Thinking of Advocates of Precedence to Main Bodies

Inspired and propelled by rural reform, reform of the urban economic system is continuing the traditional methods of "non-centralization" and "increased material incentives" followed by the Soviet Union and eastern European countries since the 1950's, shaping a line of thinking in which the "delegation of authority and the making of concessions" are principal ingredients. Its essentials are the drawing of support from the "two-track

system" of delegation of authority and making concessions as means of stirring the initiative of the main bodies in the economy, mostly producers and local governments. This is both the traditional line of thinking about reform in socialist countries, and it has also been the mainstream line of thinking during China's economic reforms in recent years. It has played a tremendous role in the initial stages of reform.

However, as reform deepens, its limitations are also becoming increasingly apparent. Hence, those who advocate precedence to main bodies bend their every effort to advocating promotion of the enterprise contract system and reform of the enterprise shareholding system, thereby propelling to a new stage the line of thought of "delegating authority and making concessions." They believe that *establishment of commodity producers who possess autonomy in their production operations, and who are genuinely responsible for gains and losses, is the key to building a new system, and that simultaneous with improvement and consolidation of the enterprise contract system during intermediate stage reform, forces have to be concentrated to advance the transfer of property rights, and to form a mechanism for takeovers and bankruptcy for the gradual realization of a shareholding system. Only after that can price reforms catch up in phases. Other people also believe that enterprises are not suitable for promotion of the shareholding system; only the contract system is a fundamental talisman for deepening enterprise reform.*

However, unstructured delegation of authority and making of concessions can make it impossible to straighten out economic relationships, can create an environment in which competition is unequal, and can produce a situation in which "removal of strictures brings instant chaos" when done simultaneously with central government delegation of authority. Not only is there no assurance of improvement in enterprises' microeconomic returns, but there is no way of shaping an economic mechanism capable of allocating resources effectively. Therefore, proponents of giving precedence to main bodies tilt the object of reform toward local governments, advocating that, simultaneous with promotion of the contract system, there be further implementation of a local large scale contract system for public funds, foreign trade, foreign exchange and banking. But, the central government has already given up the use of highly concentrated financial strength and administrative directive methods, nor can it draw support from the market mechanism to guide and restrict the actions of main bodies, so loss of macroeconomic control is a foregone conclusion.

2. The "Market Orientation" Line of Thinking of the Complete System Reform Proponents

"A Complete Plan for Chinese Economic Reform," which Chinese Outlook Press came out with in early 1988, reflected in a concentrated way the line of thinking of this school. It maintains that (1) *the fundamental*

reason for the decline in efficiency of the old system was the use of administrative directives to allocate resources, and that in a highly socialized modern economy, only allocation of resources through a macroeconomically controlled market system can channel the drive of a multitude of independent producers, making policy decisions in a decentralized way, toward the social goals of optimized returns and steady development. (2) However, price reform alone is not enough to bring about equally competitive markets. Price reform must be carried out in conjunction with reform of the tax system, public financial system, banking system, and internal and external trade system. (3) For price reform to be effective, it has to be premised on enterprises' "fairly tough budget restraints" that reflect market sensitivity. The two are mutually conditional and interdependent. Clarification of enterprise property rights and reform of the organizational system must also proceed in step with price reform.

Complete system reform proponents' use of axiomatic principles to explain deepseated, real problems produces a reform doctrine in which theory and realities are rather well combined. Furthermore, for China, where the basic framework for a commodity economy has yet to be constructed, the pressing need of the moment is also for just such a basic theory that calls attention at once to basic problems that may occur in reform. In 1984, complete system reform proponents said that "delegation of authority, and making of concessions" alone not only could not produce anticipated results, but might result in a situation in which enterprises were "responsible for profits but not for losses," and "short-term behavior," for the creation of demand inflation pressures. The steadily increasing inflation that has taken place since 1987 attests to the correctness of this prediction, and once again raises in a sharp way the reform of "market orientation."

3. The "Step-by-Step Approach" Line of Thinking of the Proponents of Unbalanced Coordination

This school maintains that *because of various limitations, the goal of building an economic system in which "the state regulates the market, and market guides enterprise" cannot be realized during the preliminary stage of socialism, and can only come about step-by-step. Intermediate stage reform of enterprises can only accomplish a certain amount of self-responsibility for profits and losses; restrictions on markets can only be removed to a certain extent; and the macroeconomic indirect regulating mechanism can only be established in embryo form. The basis for this school's theory is as follows: (1) The economy during the preliminary stage of socialism is an economy of shortages in which it is difficult to change the situation of total demand being greater than total supply. Likewise, it is difficult for the market mechanism to coordinate the economy and allocate resources. (2) In China, there is too great a gap between both the level of productivity and the state of the economy and society, and the new system. This gap can hardly be bridged in a period of 10 or 20 years. Under these circumstances, too fast a pace of*

reform can result in a "vacuum" situation in which administrative coordination has lost effectiveness before market coordination is able to take over, thereby risking macroeconomic loss of control and structural imbalance. Furthermore, changing of the operating mechanism within a short period of time must inevitably be accompanied by a dramatic redistribution of returns. When the intensity of redistribution is greater than the speed of development of productivity and rise in the standard of living, social frictions and social conflicts can increase rapidly. (3) A low level of productivity makes the nurturing of highly effective markets difficult. The creation of a market mechanism of low effectiveness through short-term reforms may hurt the country's building of capital accumulation, thereby creating difficulties for industrialization and modernization.

Thus, the unbalanced coordination doctrine makes absolute the correlation between the extent of market development and the level of development of productivity. During the early period of their development, a great many countries have a level of productivity that is much lower than China's at the present time, yet shortages do not occur. The development of a competitive market system from an incomplete to a complete state truly requires a long process of development. However, there is no basis for envisioning too long a process for preliminary building of this system. Following World War II, it took only between 10 and 20 years for some countries to go from a very backward foundation to market-regulated economies.

4. The "Level-by-Level Advance" Line of Thinking of Compatibility Proponents

This is a new school that is now in the process of emerging. The line of thinking it proposes is basically the same as that of the "market orientation" line of thinking as far as its overall strategic direction is concerned; however, in the tactics to be used for reform, the compatibility proponents advocate a "level-by-level advance" in time and space, enabling the new and the old systems to be compatible and to change in a fairly calm way.

"System Change of Track and Level-by-level Control," which the Chinese Finance and Economics Press published in early 1988, is the work that expresses this school's views. They advocate the following: (1) As the overall leader in reform, the central government is primarily responsible for establishing a regulated returns distribution system, and a centralized reform of markets, turning over responsibility for concomitant reforms to local governments at various levels, primarily key cities; (2) further dissolution of the unified domain public ownership system in reform of the enterprise system, putting state-owned enterprises that are now under direct central government administration and management variously under the administration and management of the central government, key cities, and other local governments, first shaping a competitive structure in which local enterprise

groups are the main body in the building of a rough framework for a nationwide unified market; (3) in macro-economic administration and management, the central government places the emphasis of regulation and control on total numbers and structural matters, market operation and control of other microeconomic procedures being primarily the responsibility of key cities.

At the present time, when reform is having trouble getting started, some departments have adopted a "unified planning and level-by-level control" policy, or a "unified control and level-by-level franchising" policy with regard to major materials, thereby demonstrating the level-by-level control, and level-by-level advance line of thinking of the compatibility proponents to be workable, and a road that must be taken in a change of system tracks. Given the present situation of decentralized financial resources, and decentralized authority, which is too cumbersome to be effective, possibly this is the only way to avoid a revival of traditional centralized government administrative control, and to advance reform by adroitly guiding actions as circumstances require.

10 Years of Price Reform Reviewed
40060215 Beijing JINGJIXUE ZHOUBAO
in Chinese 11 Dec 88 p 2

[Article by Yang She 2799 3195, Projecting Department, the State Center for Economic Information: "Review of 10 Years of Price Reform"]

[Text]

I. Price Reform and Vested Interests

At the start of the price reform, it seems, we were little inclined to look squarely at the problem of the vested interests of enterprises. It was our hope to accomplish the change in our distorted price structure without getting into conflict with the vested interests of the enterprises, a conflict which might have generated contradictions between state and enterprises. We tried to persuade the enterprises in the name of morality and justice to abstain from price increases, and to willingly "absorb internally" the effects brought about by the price reform. This was a very naive and childish idea of ours. Not to mention the fact that as soon as the reform of the economic structure was begun in the cities, a stronger profit motivation was stimulated in the enterprises by initiating mechanisms that would promote profits and material benefits within the enterprises. After that had happened, it was no longer possible to exercise effective restraint on the conduct of enterprises, as to whether their pursuit of selfish profits and interests would conform with any moral value judgements. Only under the constraint of external factors could enterprises possibly be made to reduce costs and effect "internal absorption." Otherwise, they would merely shift the burden, to be taken care of by "external absorption," and this the more so because the effects of the price reform on enterprise profits had already by far exceeded what

the enterprises could possibly "absorb internally" without giving up their vested interests. The price reform was therefore faced not only with the problem whether the enterprises could "internally absorb," but, more importantly, with the problem of whether the enterprises would have to forego some of their vested interests.

For many years, we have taken "internal absorption" to mean the effect on enterprise profits of offsetting the rise in prices for inputs by some method of reducing costs. Once the effect brought about by the price reform exceeded the extent to which an enterprise was able to reduce its costs, the enterprise was seemingly justified to demand some "external absorption," in order to preserve its own vested interests, and no question was asked whether the original interests claimed by the enterprise had been reasonable in the first place. Obviously, allowing an "internal absorption" in this sense would be too lopsided a measure. Even if we do acknowledge that price reform deprives some vested interests, such interests derived from a distorted pricing system, or unduly high prices and profits, should indeed be the reason why we should not only admonish to offset the effect of rising prices for inputs by reducing costs, so as to still ensure some profits to the enterprises, but also, in case reduction of costs would be insufficient to absorb all of the increased cost of inputs, why we should compel the enterprises to forego some of their vested interests and still "absorb internally." Price reform requires an "internal absorption with an assurance of profit," in which those who have vested interests will reduce their costs. It requires, even beyond that, an abandonment of some vested interests and effecting "internal absorption with abandonment of some profits." If the price reform still does not plan on touching on the vested interests of the enterprises, the price reform, whatever action it may take, will then end up in nothing else but a continuous chain of price rises by the enterprises.

The most immediate impression gained from the term "internal absorption" is that the state tacitly acknowledges the reasonableness of the vested interests of enterprises, and this is a clear indication of the ambiguous attitude maintained by the state in the question of vested interests of enterprises. As a consequence, enterprises that do effect "internal absorption" are taken as enlightened and righteous, but if they rather leave things to "external absorption," they are also not to be condemned. This attitude strengthens the stand of the enterprises in their negotiations with the state. Whenever the state attempts an upward adjustment of prices for inputs needed by the enterprises, it leads to endless bouts of haggling over prices with the enterprises.

II. Price Reform and Soft Budget Restraints

The response by enterprises to price signals depends entirely on the effectiveness of budgetary restraints. However, during the entire process of price reform, we have never been able to establish an effective budget mechanism of hard restraints. Even when price signals

were changed, enterprises showed no eagerness to change inputs of production, neither in the structure nor in the level of production to conform to the new market environment. They rather tried by every means to gain more favorable conditions in ways that would affect the state's tax revenue, or subsidy and price policies. Soft budget restraints also made it impossible to hold down the demands of enterprises for inputs to their production. It seems the enterprises can now justly anticipate that any increase in their cost burden, caused by their expanding demands, will all be made up sooner or later by subsidies. Any price change will, therefore, not only not reduce the demands of the enterprises as to inputs to their production, but on the contrary will possibly heighten their inclination to hoard because of their fear of shortages. The soft budget restraints will have price signals lose practically all significance for regulating enterprise conduct.

Since 1985, our efforts to control total social demand have failed time and again. The reason has been that we always tried to attain the goal of controlling total social demand by controlling certain macroeconomic parameters or variables, but seldom raised any question regarding the mechanism that allowed an inflation to occur in total social demand, namely regarding the soft budget restraints at the enterprises. We have never experienced that soft budget restraints were the very first link in the cause-and-effect chain of inflation in total social demand, but financial and credit inflation are frequently the accompanying phenomena of inflation of total social demand. If soft budget restraints are not radically eliminated, the strained supply and demand situation in the market cannot be resolved, and there is no way to ever realize the all-round satisfactory environment hoped for in price reform.

Soft budget restraints in enterprises will finally lead to the dead cycle of reverting to the old price parities in China's price reform. When price reform is primarily a matter of "adjustments," serious losses will be incurred by badly managed enterprises manufacturing intermediary or final products, because of the adjustment of prices for basic materials. But they will not go bankrupt for this reason, but will obtain even larger subsidies or tax exemptions. Profitable enterprises manufacturing intermediary or final products will also be obstinately guarding their own vested interests. The result will be that the state alone will bear the entire cost burden brought about by the adjustment of prices for basic products. When price reform will reach the stage where state finances will find it difficult to go on, the state will be forced to relax price controls for intermediary and final products, to shift the burden away from itself. This will lead to the first cycle of price reform parities reverting to what they had been before. When price reform is primarily a matter of "decontrolling," price rises by enterprises manufacturing basic products will immediately induce the chain reaction of price increases by enterprises manufacturing intermediary or final products. Whether the commodities are in abundant or in short supply will

not be a factor anymore in the matter of restraining price increases by manufacturing enterprises, because the soft budget restraints will already have blunted the effect on prices in enterprises that need "abundantly produced materials" as inputs in their production, and will have the inflated demand for input products reach a stage where any price demanded by the selling enterprise will be found acceptable. At this time, "goods in abundant supply" will not be synonymous with "in storage due to sluggish sales." Under conditions of soft budget restraints, enterprises are mutually providing a demand environment for each other which they need to raise prices. This easily leads to the second cycle of price reform parities reverting to what they were before. One may say that when our price reform showed itself "soft-hearted" in relying on administrative and legal powers to deprive enterprises of vested interests, the market, on the other hand, became paralyzed into complete impotence by the soft budget restraints of the enterprises.

III. Price Reform and the Market System

Why can China not turn soft budget restraints into hard budget restraints? Because hard budget restraints would lead to the bankruptcy of a large proportion of China's enterprises. But China's enterprises will not be allowed to go bankrupt, a fact which is of course linked to the rigidity of China's employment system. The most critical factor here is still the inadequacy of China's market system for key production elements and the inadequacy of our mechanism for restructuring resources. Actually, the rigidity of the employment system has truly become an obstacle in the matter of enterprise bankruptcies only when workers lost their jobs and could not find new employment for long periods of time after some enterprises went bankrupt as a result of economic retrenchments. Speaking of the current situation in China, if there would only be a perfect mechanism for the restructuring of resources, the speedily growing economic processes would be fully capable, in the course of economic restructuring and adjusting, of absorbing within a short time the labor force and resources coming from bankrupt enterprises. It is precisely because China lacks a perfect market system that this process cannot be materialized. Every enterprise that goes bankrupt leaves its jobless working force and resources for a long time in a state of distress. The only choice that we now have, in the interest of economic and social stability, is to give every care and protection to enterprises that are on the verge of bankruptcy.

As it is impossible to carry out a lateral restructuring of the available resources, the economic structure will have to rely for its perfection on vertical investment arrangements. It is equally true that the inadequacy of the market for key production elements, on the other hand, led to the failure of all such efforts. Since the reform, enterprises have developed into investment units of their own, but no change has so far been made in having the state alone bear the brunt of the overall improvement of the economic structure. In China's economic structure

there have all along existed two functional forces, a positive and a negative one: On the one side, state financial investments have made great efforts to rectify the unbearably distorted economic structure, while, on the other side, enterprise investments have had the economic structure once more become unbearably distorted, which is exactly the reason why we have seen the continuous deterioration of the economic structure. Even though in the overall view, enterprises do hold large investment funds, the investment capital of each individual enterprise is extremely limited. Industries of items in short supply, such as the energy and raw and semifinished products industries, belong to the sphere of large-scale economic undertakings, requiring long-term investments. Without a finance capital market as intermediary, individual enterprises cannot by themselves engage in these industries. Though enterprises may be willing, they will not have the strength to do so. The lack of a market for key production elements is actually blocking the way for the "sluggishly trickling drops of water" to combine into a "surging stream." Even though a few enterprises use their investment funds to engage in industries manufacturing items in short supply, their utterly inadequate activities cannot resolve the difficulties of the overall shortages, and besides will lead to reducing the economic scope of an industry in question to very small sizes. To improve the daily deteriorating economic structure, the financial powers of the state procrastinated until complete exhaustion, and lost all power for macroeconomic readjustment and control. Out of concern for whether the state's financial power would be able to endure the price reform, the price reform had difficulties to come off, and again and again golden opportunities were allowed to slip by. If there were a capital fund market to act as intermediary, and if, furthermore, on this basis a shareholding economy were established for the energy and raw and semiprocessed materials industries, thus opening the way for the accumulation of enterprise capital to be used for the so-called "shortage supply" industries, it could mean "lighting up the whole prairie with the fire from the little sparks of the enterprises." The state would then also be able to extract itself from its dilemma. As things have developed up to now, after the stagnation that has set in about the establishment of a market system, it is as if fetters had been placed on the in-depth development of the price reform.

FINANCE, BANKING

Improvement of Currency Circulation Velocity Urged

40060236 Beijing JINGJI CANKAO in Chinese
21 Dec 88 p 4

[Article by Zhu Tianshun 2612 3944 7311: "Rectify the Monetary Order of Intermediate Links"]

[Text] To check inflation, we should not only emphasize the control of aggregate demand, increase aggregate supply, and control total money supply (cash and current deposits, namely M1) but also pay attention to rectifying the monetary order of intermediate links and increase

the annual velocity of money circulation in China. For instance, the annual money circulation velocity (calculated based on M1) of China is approximately 4 weeks slower than that of the United States. This explains that problems existing in the intermediate links include the factor of slow capital turnover as well as the factor of excess capital occupation. They can be summarized into the following problems:

1. *Overheated commerce.* The process of social reproduction is the unity of circulation and production. The role of commerce, as a drainage for production and channel for consumption, should not be underestimated. However, overheated commerce has become an economic disease. In recent years several hundred thousand new companies of all kinds have been established throughout China to engage in the circulation business. These companies have not only increased capital occupation and cash stock but also become a hotbed for the birth of "official profiteering" and the breeding of "private profiteering." Some of these companies resell dispatch lists for profits, causing some cargoes to change hands several times and their prices to rise many times before they even leave the warehouse. Some sell the certificates of purchase for goods in short supply. Some even sell import permits for profits. Some financial companies have also collected deposits and granted loans without authorization, encouraging speculation, profiteering, and extra-budgetary capital construction and disturbing monetary order.

2. *Duplicate occupation of supply and marketing funds.* In recent years some supplies or supply and marketing companies have been established in many localities. Some of these companies have indeed played a role in supplying raw materials and marketing products for some factories and in accelerating capital turnover. But other supply and marketing companies, holding a large amount of funds in the name of serving factories, have started entirely different commercial operations and even engaged in illegal purchasing and selling and panic purchasing of different supplies. Consequently, in spite of the establishment of supply and marketing companies, the material reserves and product funds of factories have continued to increase instead of declining.

3. *Prolonged settlement and increase in the amount of funds in transition.* Currently, the unfixed capital of industrial enterprises accounts for over 33 percent of their total working capital. This is mainly because the amount of money held to settle accounts has increased. The amount of money held by commercial enterprises for account settlement accounts for 34 percent of their total working capital. Near 40 billion yuan is now in transition throughout the country. The main reason is that after the money supply was tightened, enterprises have deferred payments to each other, banks have tried to seize the funds that have been transferred among their branches, and moreover, the instruments of settlement (money orders and checks) are insufficient, and the means of settlement are backward, thereby worsening the problem.

4. *Inability To Control Cash Supply.* Between January and October 1988, China's cash supply showed an increase of 450 percent over the corresponding period of the previous year. Cash accounted for about 50 percent of the increase in the amount of loans issued by the end of October while it accounted for only 11 percent in the same period of the previous year. Cash payments have been carried out mainly through the link of circulation. For instance, in the western part of Anxin County of Baoding Prefecture, there are over 550 scrap nonferrous metal procurement and smelting centers and stations, run mostly by groups of individuals. Although they are crude "primitive" markets, they supply materials for large plants in Harbin, Shenyang, Baotou, Taiyuan, Changzhou, Yunnan, Tianjin, and Beijing and receive remittance from these big users. According to investigation, from January to August, as much as 200 million yuan of cash was put into circulation by this county, which was an increase of 247 percent over the corresponding period of the previous year. How many more of this kind of small capital goods markets acting as "cash funnels" exist throughout China is a question worth very much thorough investigation and study.

Where do we start to rectify monetary disorder existing in the link of circulation? I think we can "work along three lines":

First, promote the use of promissory notes for account settlement and establish, on a trial basis, fund transfer networks. Marx once said: "True credit currency is not based on the circulation of money (metallic or national currency), but on the circulation of money orders."¹ This is the law of commodity economy. Some developed countries have used promissory notes for all account settlements. For instance, over 50 billion checks are used every year in the United States. We should also promote the use of promissory notes for account settlement, reduce cash flow, strengthen bank supervision over remittance, and encourage the use of unified receipts and the settlement of accounts by transferring funds from one account to another for purchases done outside local areas so as to raise the efficiency of transactions and the rate of capital turnover. Of course we should also learn as soon as possible from the electronic banking experience of developed countries and establish, on a trial basis, electronic fund transfer networks. We should not be content with the electronic computers that are now being used at the counter of a few banks. The ultimate goal of the electronic banking project is to establish electronic fund transfer networks.

Second, readjust the credit structure of the circulation sphere. Currently, commercial and capital goods loans account for almost 50 percent of all working capital loans. To change the current situation of multiple dealers and the growing expansion of circulation, we should make a proper adjustment of commercial loans and transfer more funds to support "bottleneck" industries and guarantee the procurement of farm and sideline products. With regard to wholesale commercial loans, we should first guarantee the

capital needs of major wholesale channels to ensure continuous market supply and tighten loans for duplicate wholesale institutions. This principle also applies to the adjustment of wholesale loans for wholesale enterprises which also deal in retail business or retail enterprises which also deal in wholesale business. Both wholesale and retail enterprises must have a proper scope of business. Especially, they are not allowed to exceed their authority to deal in the means of production, raise prices at every level, or engage in hoarding and speculation. Otherwise, credit sanctions will be taken against them.

Third, gradually reduce the amount of funds in the intermediate links within factories and organize the "large circulation" outside the phase of production. At present, the excessive occupation, slow turnover, and low efficiency of factories' working capital are caused mainly by the fact that each factory has, within itself, a small but complete circulation system, consisting of a fixed amount of working capital, which accounts for two-thirds of liquid assets, and an unfixed amount of working capital, which accounts for one-third (mostly funds for account settlement). The fixed working capital is divided into reserve funds (accounting for approximately over 50 percent) and product funds (accounting for approximately over 20 percent). If most of the factories' material reserves are supplied regularly by supplies departments or capital goods markets and most products are marketed on the precondition of fixed quality and prices by wholesale commercial departments and designated retail departments, factories would be able to release a large amount of funds and put them into the funds of the "large circulation" to support the development of science and technology, education, agriculture, energy resources, transportations, and infrastructure construction. Many places have already done so. As long as we can do a good job in organizing the "large circulation" and let banks' clearing houses gradually take over the task of increasing the velocity of the circulation of account settlement funds, factories would be able to advance with a light overhead and concentrate major energies on the improvement of production techniques and managerial levels.

Footnote

1. *Das Kapital*, Volume III, page 451

INDUSTRY

Beijing's Industrial Production Grows Steadily
40060261c Beijing BEIJING RIBAO in Chinese
20 Dec 88 p 1

[Article by reporter Yu Fei 0060 7378: "Beijing's Industrial Production Has Increased Steadily for 5 Consecutive Years; Adhere to Reform and Deepen the Contracted Management Responsibility System; the Beijing Municipal Government Convenes a Work Conference To Sum Up Achievements in 1988 and Make Arrangements for Work in 1989"]

[Text] Adhering to reform and deepening the contracted management responsibility system has enabled Beijing's

industry to increase production and economic returns at the same rate for 5 consecutive years. The Beijing Municipal Government convened a work conference on 19 December to conscientiously sum up achievements made in 1988 and make concrete arrangements for the industrial front to improve economic environment, rectify the economic order, and deepen reform in an all-round way in 1989.

Attending the conference on 19 December were Xu Weicheng, deputy secretary of the Beijing Municipal CPC Committee; Zhang Jiamin and Wu Yi, vice mayors of Beijing Municipality; responsible comrades of relevant committees and offices of the municipal government, of 16 general industrial companies (bureaus), and of various districts and counties; and factory directors and party secretaries of key enterprises.

In his speech, Vice Mayor Zhang Jianmin fully affirmed the outstanding achievements scored by Beijing's industrial front in 1988. He said that in 1988 Beijing's industrial front has made new progress in the economic reform, new achievements in industrial production, and new improvement in economic returns. In Beijing's four modernizations, the industrial sector has proved itself to be a political main force of stability and unity, an economic main force of financial resources, and a main force that guarantees the needs of the people's daily life. In his speech, he also analyzed the current situation and expounded on the necessity of improvement and rectification work. He urged the staff members and workers of the industrial front to be fully confident and devoted to reform, to implement various improvement and rectification measures adopted by the municipal government, and to strive to make a success of 1989 production.

In 1988, industrial production has confronted many difficulties never seen in the last 10 years, such as shortages and price rises of raw materials, but all reform and production tasks have been fulfilled in an all-round way thanks to the 1.7 million staff members and workers of the industrial front, who have been united in this battle and using reform to guide the situation as a whole. The main expressions are in the following eight areas:

Since 1984, the economic returns and production growth of industrial enterprises have increased at the same rate and the quality of their products, improved steadily. Between January and November 1988, while industrial production increased continuously, sales income, the amount of profit delivery and taxes earned and the amount of profits and taxes actually delivered and paid increased 20.6, 16.7, and 11.1 percent, respectively, over the corresponding period of 1987. In 1988, 23 products of Beijing Municipality have won national-level gold and silver medals, most in the last 3 years.

Greater progress has been made in utilizing foreign funds and increasing enterprises' ability to export goods and earn foreign exchange income. Between January and November, 101 Sino-foreign industrial joint ventures were approved and \$329 million of agreements, reached.

Great efforts have been made to increase the effective supply, thus guaranteeing market supply and the people's daily needs. The output value of 100 undersupplied major products accounted for, respectively, a fourth and a third of the total output value of local industrial departments and their total profit delivery and tax payment.

New achievements have been scored in scientific development and technological transformation. In 1988 industrial departments have successfully trial-produced over 2,200 new products, of which, over 1,540 have begun mass production and over 100 have reached the 1980's international level for comparable products.

As many as 61 enterprises have gone through various forms of optimization of enterprise organizations such as incorporation, merger, and integration.

New steps have been taken in integrating urban and rural industries. A total of 330 industrial and agricultural joint ventures have been newly established in Beijing Municipality, 1.3 times the total number of similar enterprises established before 1987. A total of 275 million yuan has been invested in such enterprises, 3.5 times the accumulated amount of investment made before 1987.

Over 80 percent of raw materials and foreign exchange have been collected through multiple channels at various levels. Potential has been tapped and income increased as a result of the in-depth development of the "double increase and double economy" campaign.

All tasks have been successfully fulfilled in regard to communications, transportation, safety production, pollution management, and the transfer of the military to the civilian.

When reviewing the achievements of 1988, participants at the conference pointed out that adhering to the implementation of the contract management responsibility system, considering the optimization of labor organization as a breakthrough, and deepening enterprise reform is the key to the success of Beijing's industrial enterprises in overcoming numerous difficulties and achieving the steady increase of production.

With regard to the work policy of the industrial front in 1989, the conference urged us to conscientiously implement the policy of improving economic environment and rectifying economic order set forth by the CPC Central Committee, adhere to and perfect the contract management responsibility system, promote the optimization of labor organization in an all-round way, deepen supplementary reforms within enterprises, arouse the enthusiasm of the broad masses of staff members and workers, readjust industrial and enterprise structures and product mix, increase effective supply, and achieve the goal of increasing the growth rate of both industrial production and economic returns by 8 percent in 1989.

To guarantee the achievement of this goal, the municipal CPC committee decided to stick to the important and sacrifice the general in production, to vigorously increase the production of 100 undersupplied major products and 100 minor commodities that directly concern the people's daily life, and to continue to implement the "four preferential treatments and one bonus" policy for 200 products. The municipal CPC committee will first guarantee the needs of key products in regard to the planned distribution of coal, water, electricity, gasoline, and railway transportation. The conference urged every enterprise, industry, district, and county to make a careful analysis and list all products that need to be developed and eliminated. This is to vigorously readjust the product mix by eliminating and suppressing a number of substandard products. The conference urged us to vigorously promote the optimization of enterprise organization, tap the potential of existing production elements, support and encourage those enterprises, which have shown strength in products, technology, management, and capital and have an advantageous position in competition, to expand themselves through various means such as integration, merger, and shareholding. The municipality will also use transferring to merge some unprofitable enterprises into enterprises that have an advantage in production and produce key products to speed up their development.

In his speech, Xu Weicheng said that when signing a contract, we must adhere to the principle and make no concession concerning the contract base. At the same time, he said, we should fully estimate production difficulties in 1989, make preparations in advance, and strive to tap production potential and liberate productive forces. We should commit ourselves to work that will yield practical results and not engage in impractical projects. Wu Yi also spoke at the conference and set forth concrete demands for Beijing's industrial production in 1989.

Municipal Official Defines Beijing Industrial Plan for 1989

40060261d Beijing BEIJING RIBAO in Chinese
20 Dec 88 p 1

[Article by reporter Yu Fei 0060 7378: "Municipal Leader Sets Forth Four Demands on Beijing's Industrial Work in 1989 at the Industrial Work Conference of the Beijing Municipal Government"]

[Text] Wu Yi, vice mayor of Beijing Municipality, pointed out at the Industrial Work Conference of the Beijing Municipal Government, which was held on 19 December, that all staff and workers of the industrial front should rouse themselves, deepen reform, do solid and ingenious work, welcome new challenges, and reap new victories. She set forth four demands on industrial work for 1989.

1. We should clearly understand the situation, enhance confidence, cast away illusions, and take initiative in our action. Industrial enterprises must have a healthy spirit

and voluntarily and consciously explore and test themselves in the ocean of commodity economy. They should tell their staff and workers clearly about the difficult situation and effective countermeasures, organically combine ideological and political work with material rewards, and transform motive power, pressure, and attraction into productive force.

2. We should focus on changing the operational mechanism of enterprises and push the contract system to a better, more scientific new stage. Improving economic environment and rectifying economic order does not mean that the reform has taken a turn for the worse. Instead, it is to create conditions for healthier, smoother, and faster development of the reform. We should consciously jump out of the cycle in which "decontrol brings disorder and control brings depression" and firmly hold on to those reform measures which have been proved effective in practice.

3. We should follow the market closely, voluntarily readjust product mix, and increase effective supply. Following the market closely means taking a more positive attitude and voluntarily readjust product mix according to market demand. We should make an effort to capture the market before others and to expand the coverage of our products.

4. We should use advanced areas and enterprises as a goal for us to emulate and raise enterprises' managerial and technological levels. Although some enterprises are not doing very well, they are pleased with themselves and do not try to do better because they have reached the advanced level of their domestic counterparts. This is not right. We should uphold a higher standard, compete with those who are better and stronger, use the advanced enterprises of the same industries at home and abroad as our goals, and devote ourselves to catching up and surpassing them one after another.

SMALL-SCALE ENTERPRISES

Minister: Technological Progress Key to Development of Township Enterprises

40060237b Beijing JINRONG SHIBAO in Chinese
19 Dec 88 p 1

[Article by Wang Baoqing 3769 1405 7230: "Township Enterprises Face Severe Test With Cancellation of Concessional Tax and Credit Policies, Gradual Loss of Low Cost Labor Advantage, and Price Rises for Energy and Raw Materials; Which Way Out? Minister of Agriculture He Kang Comments."]

[Text] For China's township enterprises, once the objects of so much attention, a series of problems is beginning to appear along the road of progress. The quality of workers and staff tends to be low, technological sophistication is

lacking, product quality is not high, and production facilities are old. How can these fetters on the road of progress be shaken off, so as to enable a fuller exploitation of potential? At the National Working Conference on Technological Progress in Township Enterprises which was held on December 15, China's Minister of Agriculture, He Kang [0149 1669], stated clearly that "technological progress is the key link in solving these problems."

For the past 10 years, the progress of township enterprises has depended on the collective and individual savings of peasants. Last year, the number of staff and workers employed in township enterprises reached 88.05 million, and their total output value reached 476.4 billion yuan, which equals the gross national product of 1973. However, several problems worthy of concern have appeared during the progress of township enterprises. The quality of workers and staff tends to be low. The proportion of technically trained personnel is only one-tenth that in state-run enterprises. Facilities are old. Of all equipment, 60.9 percent was manufactured before 1970. The quality of 70-90 percent of all products is lower than the products of state-run enterprises. There tend to be more products of medium and inferior quality, more old-style products, and fewer new products. In He Kang's analysis, "It is precisely the fact that technological capabilities of township enterprises lag behind which has caused progress during the last few years to occur primarily in the form of extensive enlarged reproduction."

Continuing his analysis, He Kang also said that the swift development of the new technological revolution, and the open, reinvigorated economy and deepened reforms have brought on a new situation. Township enterprises are facing new challenges. The mechanism of township enterprises has gradually lost its superiority under the new situation brought on by reforms. The concessional tax and credit policies originally enjoyed have been gradually cancelled. The advantage of lower paid labor has been greatly reduced. The means of production have seen great price rises. Unavailability of raw materials and energy has severely taxed these enterprises. With the rectification, adaptation, and adjustment taking place in the national economy, township enterprises have taken the brunt of curbs placed on the supply of credit, energy, and raw materials. If township enterprises are to achieve stability, they must rely on technological progress to increase competitiveness and adaptability.

How can township enterprises rely on technological progress to exploit their own potential? He Kang mentioned some concrete ideas. In light of the unbalanced, highly regional character of the development of township enterprises, several steps must be taken: different guidance should be given to different types of areas; there must be extensive training, and personnel must be brought in to raise the quality of the labor troops of township enterprises; there must be a planned updating of the technology of existing enterprises, with special emphasis placed on the "three forms of import processing and compensation trade," foreign invested enterprises, and enterprises which

export and earn foreign exchange; there must be broad borrowing from the strengths of other sectors of society, and horizontal economic and technical liaisons must be opened up, so that the strengths of others might complement one's own weaknesses; and enterprise reform must continue to be deepened to strengthen the self-development capabilities of enterprises.

Township Enterprises Make 'Comeback'
40060237a Shanghai SHIJIE JINGJI DAOBAO
in Chinese 19 Dec 88 p 15

[Dispatch from SHIJIE JINGJI DAOBAO reporter Lin Hong Dai 2651 3163 1486 in Nanjing: "Township Enterprises Make a Comeback"]

[Text] *In this area, township enterprises evaluate the contract responsibility system and the strategy of developing coastal areas very favorably, and continued deepening of reforms is seen as a very effective way to pull themselves up by the bootstraps. The factory manager responsibility system in key enterprises will be perfected, with the goal of instituting set tenure for factory managers. In regular enterprises the factory manager will lead the way toward collective contracting, and will preside over a planned, orderly implementation of contract bidding and secured contracts. Leased management, mergers, and sales of enterprises will be carried out across the board among small enterprises, and among enterprises which lose money or make a small profit. Qualified companies will be chosen for experimental implementation of the stock system.*

On the eve of the first province-wide work conference on township enterprises called under the auspices of the provincial party committee and the provincial government, the most urgent message coming from villages from both banks of the Chang Jiang's lower reaches was the cry to "save township enterprises!" Thousands of rural entrepreneurs believe that the suppression of loans exceeding the state plan constitute a double burden on most rural households—it not only depresses agricultural sideline products, but also depresses village and town enterprises.

Last year, township enterprises in Jiangsu accounted for 44 percent of the province's total industrial output, 22 percent of the provincial government's revenues, and 60 percent of the increase in provincial government revenues. In the first half of this year, the profits of secondary industrial enterprises rose by 23 percent over the same period last year, and taxes turned over to the state rose by 31 percent. There are already more than 2,700 township enterprises engaged in export and earning foreign currency, of which 100 are foreign invested enterprises [FIEs]. The total value of their exports was 55 percent higher than for the same period of last year, and this accounted for more than 20 percent of the province's total export value. How does this prove that township enterprises should be sacrificed in order to control inflation?

However, information obtained by this reporter indicates that large numbers of villages in Jiangsu have reduced loans for production expenses by more than one million yuan, while enterprise self-raised operating funds were never as much as 10 percent of required operating funds. At the same time, the prices of raw materials and energy used this year by township enterprises have gone up by more than 100 percent; selling costs by 45 percent. Power supply could simply not be counted on. In the markets, demand for building materials has fallen off, sales of textile machinery and parts have stagnated, and the future for construction worker brigades is not bright. The number of township enterprises across the province that have been forced to close, suspend production, merge with other enterprises, or change to production of different products, will amount to 30 percent, while more than 2 billion yuan worth of newly acquired fixed assets have been completed, but cannot enter production for lack of operating funds.

Presently, what township enterprises hate most is apportioning of work and expenses. An investigation carried out in Yixing county revealed that the various levels of government had 21 different missions spelled out clearly in writing, but found that these same governmental organs had come up with 37 ways to raise money, arrange support, and make arbitrary transfers of resources. This has been described as "using ten syringes to take a blood sample."

The biggest complaints from township enterprises concern banks. In Huaiyin county, it takes a whole month for an enterprise in one village to receive funds remitted from a neighboring village. A factory in a village in Qidong county went bankrupt and closed down, whereupon the bank ordered other factories in the area to return funds owed the bank by the bankrupt factory. There are even such strange cases as banks that will not allow withdrawal of funds without forfeiture of a "commission."

Can village and township enterprises compare with state-run enterprises? They must bear, before taxes, social expenditures of 10 percent. The portion of net output value allotted for their private use is already down to 15 percent. If they are forced to depend on specialized enterprises for any of the means of production, even the last five percent reserved for the state plan cannot be assured. Presently, most workers and staff in township enterprises receive 30-40 yuan in "living expenses" per month for their hard work.

As the year comes to a close, township enterprises must: 1. fulfill contracts and carry out agreements; 2. distribute back pay; 3. pay back call money borrowed from out of town; 4. return bank loans; 5. deal with "inspectors" from various departments... No wonder factory managers always moan and sigh!

According to the analysis of those involved in Jiangsu economic affairs, the laborers in township enterprises can no longer "leave the factories and return to the

fields," thus one should not overestimate their wealth. The ability to accumulate funds is limited. Specifically, the great majority of township enterprises should be able to struggle through this rough period, but leaders who are all take and no give; who know only macroeconomic tightening and controls, but not how to vary leadership and assistance depending on the needs of different sectors; are not good enough. This is the time for every level of government to stand forward.

It is reported that township enterprises in Jiangsu are now "changing track while in debt," developing a strategy for structural reorganization and technological progress. Besides the usual plans for fuller utilization of production potential, they are also planning to concentrate on developing products which possess high surplus value, are produced with high efficiency, provide high foreign exchange earnings, and allow for low consumption of energy and material resources.

In this area, township enterprises evaluate the contract responsibility system and the strategy of developing coastal areas very favorably, and continued deepening of reforms is seen as a very effective way to pull themselves up by the bootstraps. The factory manager responsibility system in key enterprises will be perfected, with the goal of instituting set tenure for factory managers. In regular enterprises the factory manager will lead the way toward contracting to collectives, and will preside over a planned, orderly implementation of contract bidding and secured contracts. Leasing, mergers, and sales of enterprises will be carried out across the board among small enterprises, and among enterprises which lose money or make a small profit. Qualified companies will be chosen for experimental implementation of the stock system.

This reporter has also been informed that one of the central topics of the present work conference on township enterprises is lightening the burden carried by enterprises, and putting a stop to arbitrary apportioning of work and expenses. Township entrepreneurs are calling for more understanding, sympathy and support from all sectors of society.

Gansu Reports Excellent Township Enterprise Performance

40060211b Lanzhou GANSU RIBAO in Chinese
1 Dec 88 p 1

[Text] Faced with rising prices for raw materials, tight funds, limitations on electricity use and other unfavorable factors, Gansu's township enterprises still managed to fulfill their plans for the entire year by the end of October, when the firms posted a total output value of 4.037 billion yuan, an increase of 49.25 percent over the same period last year.

This year, Gansu's township enterprises have placed most of their emphasis on advancing reform and on reorganizing themselves. Statistics show that as of the

end of August, 2,443 such firms had already been reorganized, of which number 83.6 percent had undertaken responsibility contracts or engaged in leasing. Reorganization has markedly improved the quality of the firms and improved everyone's economic results. Statistics from Tianshui, Jinchang, Dingxi, and four other prefectures and cities show that reorganized firms on average earned 32.18 percent more profits and paid an average of 35.68 percent more taxes than they did prior to reorganization.

The enterprises are placing much more emphasis on S&T improvement and on training this year than they did in the past. So far this year, more than 20,000 people have received training for different trades and types of work. In collaboration with relevant institutions of higher education, the provincial township enterprise administration bureau has set up six tertiary-level training courses, and some enterprises have made their own arrangements to send outstanding employees to colleges, universities, and the like for advanced training. And with the assistance of the Gansu Bureau of Quality, some enterprises have set up "standardized correspondence courses," which have provided some 3,000 people with specialized training in the construction, light, machine, electrical equipment, building material, chemical, textile, clothing, and other industries. In addition, according to incomplete statistics from 30 counties, cities and districts, 2,428 skilled personnel have been recruited from outside the province, thus bolstering the technological forces of Gansu's township enterprises.

The continued excellent performance demonstrated by the enterprises is inseparable from the assistance rendered them by large and medium state firms in the province. This year 59 such firms organized traveling or assistance teams which provided active support for the development of township enterprises in the areas of project selection, funding, and recruitment of skilled personnel. Statistics from 16 large and medium enterprises in the province show that these firms have helped township enterprises set up 73 joint ventures having an estimated total output value of 140 million yuan, providing nearly 70 million yuan in funding and material assistance.

FOREIGN TRADE, INVESTMENT

Competitive Bidding for Foreign Trade Business Urged

40060226a Shanghai SHIJIE JINGJI DAobao
in Chinese 12 Dec 88 p 10

[Article: "Institute Competitive Contracting Among Foreign Trade Businesses and Discard the Regional Contracting System"]

[Text] *The regional contracting system is merely an "improvement" and a "perfection" of the old system under new circumstances rather than the inevitable outcome of deepening reform of the foreign trade system.*

Abandonment of the local regional form of contracting may be regarded as a more scientific choice for perfecting the foreign trade contracting business system and the deepening of foreign trade system reform.

"Discarding the foreign trade regional contracting system and instituting direct competitive contracting among businesses" is the proposal made in an article written for this newspaper by Qiu Demin [6726 1795 3046], Director of the Shaanxi Provincial International Trade Institute. The article maintains that since the 3d plenum of the 11th CPC Central Committee, reform of China's international trade system has gone through a difficult process of exploration, which began with the delegation of authority for foreign exchange dealings to system contracting, and went from system contracting to local regional contracting. This has played a definitely helpful role in stirring the enthusiasm of departments, jurisdictions, and businesses, and has given impetus to the rapid development of export trade. It should be pointed out, however, that China has made very slight progress in the reform of foreign trade business operating mechanisms. It has yet to introduce a competitive mechanism into businesses; consequently, the various mechanisms and control methods of the old system not only have not been overcome, but rather show signs of becoming stronger. In particular, after the institution of local regional contracting this year, the problems of lack of separation between regional administration and enterprise management, of separation of one region from another, of unfair reckless competition, and of export losses, which have existed for many years in the reform of the foreign trade system and the development of foreign trade, have not only not been solved, but have become more conspicuous and more serious. Further, there is danger that they will be legalized and made permanent. If this continues, not only will it hurt readjustment of the country's industrial structure and its export commodity structure, as well as the optimization of the structure of foreign trade enterprises, but it will also hurt implementation of a strategy for development of the economy of coastal regions. Furthermore, it also runs contrary to the goals to be obtained through reform of the foreign trade system, and it is not helpful to the deepening of reform.

The article noted that a system of direct competition among businesses is a mode of contracting in which the state issues contracts, calls for bids, and has entrepreneurs submit tenders, which is used at the present stage when the state is still the owner of assets and manager in state-owned enterprises. This kind of contracting system differs from regional contracting in the following ways:

First, the one issuing the contract and his economic status is different. Regional contracting is local government "contracting" of command style planning norms including state prescribed base figures for foreign exchange receipts from exports, base figures for foreign exchange receipts from exports paid to higher authority, and base figures for renminbi compensation for losses

within the base figures for exports. Once the local government "contracts," all contract base figures are broken down and passed down to constituent individual export enterprises in each prefecture. This means that the local government is both state plan contractor, and also the issuer of contracts for plan tasks given enterprises. It plays a dual owner and entrepreneur role, thereby imparting a pronounced administrative flavor to foreign trade contracting. Superficially, though regional contracting also uses the system of contracting operations, it lacks the true content and mechanisms for contracting operations; thus it is bad for the separation of government administration and enterprise management, and for the separation of ownership from operation; thus, it cannot cause enterprises to practice true contracting of operations. However, in direct competitive contracting among enterprises, state assets control units issue all contracts to export businesses in all prefectures; then state assets control units in each prefecture organize compliance, directly issuing the contracts to enterprises. This means that local governments do not take direct responsibility for state contracting tasks, but rather only act as a primary level government agency in carrying out foreign trade control functions. They play a role in supervising and coordinating contracting of operations by foreign trade businesses within the prefecture. Clearly, this is, in itself, a separation of ownership from operation. It not only helps change the foreign trade control function from direct control to indirect control, but it also helps enterprises make their own business decisions, and bear responsibility for their own profits and losses.

Second, the method of issuing contracts, and the status of the contractors is different. Regional contracting uses only the organizational structure of the old system as a compulsory measures for completing state foreign trade plan tasks of a directive nature; it is unable to solve problems having to do with businesses' relatively independent economic position. Businesses can only continue to accept contracting (command plan) duties, and they have no authority to submit tenders selectively across regional or occupational lines. Production enterprises can still only continue to provide supplies of goods to designated local export businesses; they cannot selectively act as agents for exports nationwide. At the same time, foreign trade businesses remain only executors of state authority over foreign trade dealings; they are not export commodity dealers having an independent economic status. However, direct competitive contracting among enterprises introduces the competition mechanism through calling for tenders and the submission of tenders, and creates an environment of fair competition among dealers inasmuch as conditions for calling for and submitting tenders are the same for all. This system converts the existing "one-on-one" haggling between enterprises and the state into a competitive submission of tenders among the various entrepreneurs, ultimately enabling the successful bidders to obtain an economic status as legally authorized independent dealers in

export commodities. Thus, titular and formal contracting becomes contracting infused with the competitive mechanism; entrepreneurs are able to make active use of market conditions in deciding how to deal, and they have responsibility for their own profits and losses. This not only helps separation of ownership from operation, and readjustment of the system organizational structure, but it also helps a deepening of reform of businesses internal operating mechanisms.

Third, the relationship among those who issue contracts and contractors is different. Regional contracting involves interested parties representing the state, local governments, and enterprises. The fate of contracting entrepreneurs still lies firmly in the hands of leaders at a higher level, and thus they must pin their personal hopes and the hopes of their enterprises on the "generosity" and preferential treatment of leaders at a higher level. Direct competition among enterprises for contracts is completely different than regional contracting. This is because when there is direct competition among enterprises for contracts, there is only one issuer of a contract and one contractor, and the issuer of the contract is also not a state agency in charge of foreign trade, but rather a representative of state property ownership rights—a state assets control unit. Its relationship with enterprises is simply one of owner and operator, rather than that of leader and led. The issuing of contracts and the calling for tenders for different kinds of export commodities by a state assets control unit with the status of owner of state assets, puts enterprises and their entrepreneurs completely into a competitive state. Thus, as far as the entrepreneurs are concerned, the contract base figures received are fairly consistent with realities in the enterprise, and after contracting, there is little room for haggling with units in charge of the enterprise. Additionally, under these circumstances, inasmuch as contractors have lost the "protection" of higher level authorities, they must orient themselves toward the market, and engage in competition. This shows that direct competition among enterprises for contracts not only helps the formation of a body of entrepreneurs for foreign trade dealings, but also helps enterprises engaged in foreign trade gradually make the transition from reliance on state subsidies with only limited responsibility for their own profits and losses to complete responsibility for their own profits and losses.

The foregoing analysis shows that the regional form of contracting is simply an "improvement" and a "perfection" of the old system under new circumstances, and is not the inevitable outcome of a deepening reform of the foreign trade system. Abandonment of the local regional form of contracting, replacing it with direct competition among enterprises for contracts may be regarded as a more scientific choice for perfecting the foreign trade contracting system, and the deepening of foreign trade system reform.

Determining Country's Scale of Foreign Borrowing
40060206 Hong Kong CHING-CHI TAO-PAO in
Chinese No 50, 19 Dec 88 pp 12-13

[Article by Chen Yi 7115 5043: "An Opinion on the Problem of China's Foreign Debt"]

[Text] Propelled by the policy of opening to the outside world, China has in recent years accelerated the pace of its foreign borrowing and expanded the size of its foreign debt. Concerned departments have calculated that by the end of 1987, China's foreign debt balance was more than \$30 billion. In the period from 1982 to 1986, the average annual increase in foreign trade payments was 22 percent; 23.5 percent of the total increase came during the period 1985 to 1986, when borrowing nearly doubled. There was an additional 46.5 percent increase from 1986 to 1987. Such a pace is rare among the world's other debtor nations.

As the decade of the 90s daily draws nearer, so does the peak of China's repayment of its debts. This year, China's debt problems have drawn considerable attention from economists, engaging in serious debate through a series of published opinions. These have concentrated on whether the size and scope of the current foreign debt is rational, and if China will have the capability to pay it when the time comes, as well as how China can strengthen its debt management.

Accurately Calculate the Size and Scope of Foreign Debts

The Chinese Institute for International Trade, Foreign Economic Trade University's Wang Linsheng [3769 2651 3932], Xun Jiaheng [1327 1367 1854], Chu Xiangyin [0328 4382 6892] and other experts have pointed out that for some time now, not only has the use of foreign capital been a priority in many areas, but there has been little importance attached to the rationality and appropriateness of the scale of foreign capital. However, the experience of the last 8 years has demonstrated that in a situation where objective obstacles must be overcome, the use of foreign capital is not a matter of the more the better; rather, it will undoubtedly cause corresponding domestic crises, with shortages in the supply of goods and materials, an inability to repay debts, and a decrease in economic benefits.

We know that the current practice of many nations is to take 20 percent of the volume of their export income for a year as the standard for repayment with interest on foreign debts in that same year. This acts as a safety standard on their foreign capital, but this is not an absolute proportion. The 15 percent figure originally set by China as its repayment ability safety standard is also by no means precise. It is essential, however, that it be calculated according to concrete analyses of national conditions, and not merely by the subjective wishes of policymakers.

These experts realize that the amount of foreign funds a nation can use should be determined not only by its exporting competitiveness, but by the nation's comprehensive economic strength as well. If China is to arrive at a rational scale for using foreign capital, it is essential to consider the following eight foreign and domestic factors: (1) the strength of the nation's foreign exchange reserves and its international technological status; (2) the corresponding strength of its domestic funds; (3) the situation as regards natural resources, transport, and supply of materials; (4) technological strength and managerial talent; (5) projected ability to repay; (6) the interest rate and length of time for repayment; (7) other conditions on payment; (8) changes in the exchange rates of the principal currencies involved.

Mainland China's foreign exchange reserves are relatively weak right now, while its corresponding domestic funds are limited. There is a critical shortage of materials, and technological strength is deficient. The ability to consume and assimilate foreign funds is weak, and it is difficult to increase the breadth of export trade. In light of these circumstances, experts know that a blind expansion of the scale of foreign capital used under these conditions of overall economic weakness is bound to have an adverse affect on expansion of the national economy, even to the point of letting it get out of control. To sum up, it is a matter of extreme urgency that we calculate an appropriate and rational scale for China's use of foreign capital.

These experts warn that based on present estimates for the rate of expansion of the nation's foreign trade, by 1990 the total expenditures on foreign capital used by China, that is, for principle, interest, and profits, will be considerably in excess of the 15 percent ability to repay safety line set by the state. This must be clearly understood.

Size and Scale Should Be Forced Down Appropriately

Lu Xianlin [0712 0752 2651], President of the China Investment Bank, has pointed out that based on China's national characteristics and an examination of the changes in the financial markets' foreign exchange rates, for unspecified reasons, research on what constitutes the general scale of foreign borrowing internationally shows that China should act at once to force the size and scale of its foreign borrowing downwards, leaving ample room for maneuver. There must be an earnest effort at analyzing the country's ability to bear foreign debts, to strengthen macroscopic control.

Bao Zheng [0545 2398], a scholar at China People's University, has noted that in the years 1982 to 1986, the actual grand total of China's foreign borrowing amounted to \$18.6 billion dollars, seemingly not excessive, but it is a fact that the debt was accumulated at too fast a rate. According to the relevant statistical data, during that 5 year period, the actual rate at which China accumulated that debt was 35 percent annually, so the

borrowing maximum will be reached in the 1990s. According to the formula for rate of borrowing, under a rate of 15 percent, after 5 years the repayment of principle and interest will normally require a doubling of the foreign exchange earned, an annual increase of 16 percent in foreign exchange taken in. This will be very difficult to do, because China's foreign exchange normally is dependent upon foreign exports, and these exports usually increase at a lower rate.

Some economists think that China's rate of borrowing has been too fast already, so that sooner or later the parameters on the set amount of borrowing will present the nation with a crisis.

Maximum Borrowing Is No Cause for Alarm

However, there are some experts who are more sanguine about the borrowing question. Lin Zhonggeng [2651 6850 1649], Chief Representative of the World Bank's delegation to China, believes that the nation's total debt repayment is still rather low in proportion to the nation's total output value and its income from foreign trade. Therefore, in the early 1990s, if the debt reaches \$40 billion dollars, that is still not a problem.

Fudan University's Zhang Baoshu [1728 1405 2885] holds a similar view. He estimates that in the first part of the decade China's annual rate of borrowing could be as high as 13 to 15 percent, and could go as high as 17 to 19 percent in the mid-1990s. This is something worthy of attention, but still less than the 20 percent danger point generally accepted internationally. Barring unforeseen exigency, there is little danger.

Zhang believes that the chief factor affecting a target rate of borrowing is the scale of borrowing, and this in turn is determined by the total debt accumulated, the average interest rate on loans, the average number of years fixed for repayment, as well as changes in the international exchange rates. It is calculated that during the 1980s China's total loan repayment was on the order of \$25-\$30 billion dollars, or \$30 dollars per capita, which is by no means excessive.

The Key Lies in Strengthening the Management of Borrowing

Nearly everyone in the economic community recognizes that China began borrowing from foreign nations relatively late, with little experience, and did not strengthen its management of borrowing until it was considered important. As an official of China's Ministry of Finance has pointed out, the Chinese interior has been engaged in foreign borrowing for 9 years, but still must be regarded as in an initial stage. Now, borrowing should be concentrated in the central authorities.

He suggests that the overall scale of borrowing be set by law, with total borrowing by central authorities constituting 80 percent of the grand total, while localities and individual departments account for 20 percent. Only in this way will the degree of danger be lowered.

There are others who have pointed out that two characteristics of China's borrowing are worthy of attention:

First, there is at present no clear distinction as to what is the state's borrowing, and therefore the responsibility of the government, and what is commercial payment for goods, and therefore the responsibility of enterprises. The majority of China's enterprises are state-run, but regardless of whether state-run or private, every enterprise should bear responsibility for its own debts.

Second, debts for which the state is responsible should be under a unified management, with a unified strategy, forming a framework for the total repayment period (that is, short, intermediate, and long term repayments). There should also be a planned, unified arrangement for the monetary structure.

Some experts believe that the nation should come to a decision regarding the authoritative function of the foreign debt management organization. There are others who believe that it is of the utmost importance to write a foreign debt law, to settle disputes with other nations which concern international debts.

The current rise in prices coupled with inflation have created new pressures, so the forecast is for even sharper disputes to come.

Problems in Liaoning's Foreign-Funded Enterprises

40060207 Shenyang LIAONING JINGJIBAO
in Chinese 3 Dec 88 p 2

[Article by Xing Jinbei 1630 6651 0554: "Problems in Liaoning's Foreign-Invested Enterprises"]

[Text] Of the past decade, this past year has been the year of the best development of foreign-invested enterprises [FIEs]. This reporter has learned from the provincial Chinese people's political consultative congress that there are presently 368 FIEs in Liaoning at a total investment of \$1,000,002,600. Of these, there are 290 joint ventures, 74 contractual joint ventures, and 4 wholly foreign-owned enterprises. What needs to be pointed out is that of the FIEs established this year, 200, or 54.3 percent, are still going strong and exhibiting the impetus that FIEs have of transforming from nonproductive to productive, the ratio of exporting foreign-exchange earners is increasing, and overall, economic efficiency is high.

However we still cannot be optimistic about the development of Liaoning's FIEs, and there are quite a few problems. To a large extent the foreign businessmen that

come to Liaoning to invest are just groping their way along. They take the enterprises that have been opened up with investment and look at them as a "window" on Liaoning's open policies, and not only do they observe them, there are even more foreigners in back of them who are observing them and looking at what direction our policies are taking... And after obtaining a clear response, then they decide whether or not to expand the scope of investment. First, because the current scope of FIEs is not large, the majority being small projects, there are only 6 enterprises with investments over 10 million yuan, and all of those are concentrated in Dalian. Secondly, looking at the foreign investment structure, there are 78 Hong Kong-funded, 38 Japanese-funded, 7 American-funded and 22 additional enterprises that are funded by other countries. Since the Hong Kong businessmen are also Chinese they have understood China's open policies faster, but even more of the foreign businessmen are still observing. Third, there are few enterprises with advanced technology. Because they are experimenting, the foreign businesses do not want to take big risks and they choose the safe ones. Before 1986 there were more nonproductive programs and since hotels are "no risk investments" you can make a lot of money from importing renovation and decorating materials. Fourth, the number of foreign businessmen that participate directly in management is very small, only 22 enterprises, and the majority of those involve advanced technology. Because the technology is advanced the foreign businessmen don't feel comfortable unless they participate in management. But the majority of enterprises are of the type where the foreign businessmen puts out money, not labor, and they are hard-pressed to visit a few times a year and exhibit minimal concern for the enterprise.

However, the international economic environment and the policies that we have adopted assure that foreign investment will be coming to China in great amounts, and the great development of FIEs will also be realized. Whether or not we can do a good job with our current FIEs, giving those who are "asking directions" a clear answer, will determine how slowly this will happen, or even if it will happen at all.

Looking at the whole province, a large portion of the FIEs are not handled up to expectation; some of the more serious problems are:

1. The relationships in the internal leadership groups of the enterprises are not harmonious.

The foreign partners operate according to international custom, whereas the Chinese party manages according to Chinese custom. In the leadership groups FIEs implement a manager responsibility system under the board of directors; the foreign partners' head managers advocate a management style characterized by specialized division of labor, rapid movement, and high efficiency. The Chinese managers are often not used to this and are not matched well, and some put up active resistance. For

example, as in a company, if the foreign head manager wants to fire workers who aren't doing their jobs, many of our people will come out and intercede on their behalf, turning the termination notices into blank sheets of paper. Amongst Chinese chairmen of the board, if quality is poor, some chairmen "don't comprehend," such as in the case of this one company in Dalian where the chairman of the board interfered with enterprise management, and the interference was not fruitful and difficulties arose, even to cutting off the electricity to cause problems. Also, some FIEs bring together two or three Chinese enterprises with foreign investment, but there is only one profit brought in for each representative of the board and so sometimes there are disagreements to the extent that, when holding board meetings, they hit the table and argue, causing the foreign partners to laugh.

2. There is excessive interference by upper levels and departments.

Some Chinese investors still do business according to the old system, and being used to administrative relationships, they treat the joint venture as a subordinate enterprise. So they are frequently interfering in enterprise management. The head manager of an enterprise is the legal representative who is hired by that body of highest authority—the board of directors. Some managing Chinese departments, without engaging in discussions with the board of directors, take it upon themselves to replace the Chinese enterprise manager, and the Chinese party thinks nothing of it, but the foreign partner regards it as an infringement of rights. In September of last year the head manager of Shenyang's Zhongshan Daxia was replaced by the responsible Chinese department, and immediately there was a strong reaction from the foreign partner, and they stopped investment and importing equipment, and the Bank of China also stopped making loans to them. Later, even though the problem was resolved, it resulted in a half-year's losses for that work period. Some departments and work units consider the FIEs as pieces of meat, randomly collecting fees from them, making apportionments and offering assistance, always hoping to squeeze out a drop of oil. Some joint ventures don't have smooth relations with the original factory. After setting up the joint venture, some enterprises develop a "one plant, two systems" condition, naturally resulting in a problem where there are discrepancies in wages and benefits between the old and new plant, and the workers complain, sometimes causing creating tension between the two plants.

3. After some enterprises get underway, because the work is not excellent in the initial period of the contract, many problems develop. In general our feasibility research in the beginning stages is not very good, some are anxious to reach an agreement, and the work is very crude. For example the Dalian Dayang Daxia signed a contract without conducting a thorough study, and it was only after they had mobilized their labor that they found out there was a post and telecommunications office nearby,

and they had to sustain losses and look for another site for the factory. Price rises for raw materials are a common problem, with some raw materials exploited each time they land in someone's hands, and the enterprises pour out endless grievances.

4. The quality of some managers of FIEs is not high, the level of management is low, and some departments use FIEs as an arena for arranging cadres, so those who are assigned are not proficient in enterprise management, but they bring in domestic trends that are in vogue and the network of relationships.

5. The leisure time of foreign businessmen who are staying in China is dull and boring. Foreign businessmen pay a lot of attention to their extracurricular cultural life, but our cultural entertainment facilities are simple, there is not much night life, and foreign businessmen have nowhere to go after work or on holidays. Therefore, there are very few who stay here for a long time. One foreign enterprise rotates the foreign personnel they have in Liaoning at their joint venture every 2 years, whereas at their joint venture in Taiwan they rotate every 5 years.

Therefore, accurately correcting the above-described problems, operating FIEs well means not only giving those who are groping along the best, most realistic response; at the same time it means taking the most beneficial steps to accelerate the opening up of the Liaodong Peninsula.

ECONOMIC ZONES

Shenzhen Economic Reforms Outlined
40060264b Shenzhen SHENZHEN TEQU BAO
in Chinese 30 Dec 88 p 1

[Article by Nie Zhengguang 5119 2182 0342: "Heartening Achievements Scored in Many Shenzhen Reforms; Every Effort Made To Operate in Accordance With International Practices"]

[Text] In pursuit of its goal of developing an externally oriented economy, during 1988 Shenzhen City worked hard on reforms to achieve firm control over the situation as a whole, and to bring about an all-around deepening of economic system reform. It made a major stride toward building an economic order that operates in accordance with international practices, promoting the healthy, sustained, and steady development of the national economy.

During the year, Shenzhen tried out new things and continued to make use of the role of "reform test ranges" as follows:

Reform of Enterprises' Operating Systems. Three things were done for the most part: First was further perfection of the contract system. Among industrial enterprises under municipal jurisdiction, 175 enterprises are practicing different forms of contract systems at the present

time. In addition, approximately 10 percent of the three kinds of partially or wholly foreign-owned enterprises are practicing shareholder contracting. In most contracting, shareholders unilaterally contract the operation of joint investment or joint venture enterprises. Some individuals contract the operation of enterprises that have lost money, or that have made only a tiny profit for a long period of time; some groups contract the operation of a number of collective enterprises, and large enterprises that are performing rather well contract the operation of enterprises that are performing poorly. Forms of contracting include both contracting payment of profits to higher authority, sharing profits in excess of stipulated amounts, and contracting the sharing of increases in profits paid to higher authority. Others provide for a linking of total wages to economic returns. Exporting enterprises under municipal jurisdiction promoted a manager responsibility system and an internal level-by-level operations contracting responsibility system. Tourism companies also promoted a pledge contracting system for all personnel. The spread and the perfection of the contract system has strengthened enterprises' operating rights, and spelled out the responsibilities, rights, and profits of contractors. It has effectively stimulated the business enthusiasm of contractors and increased enterprises' economic returns. Municipal trade statistics show a 100 percent increase in profits realized over the same period in 1987. Second was enterprise takeovers. In order to eliminate a number of enterprises that were losing money, while simultaneously solving problems successful enterprises faced in having their development handicapped by a lack of fixed assets and capital, Shenzhen tried enterprise takeovers. Successful enterprises "devoured" unsuccessful ones, thereby transforming inferior enterprises and bringing about a flow of accumulated fixed assets to successful superior enterprises. One example was the gas company, which had a number of professional management personnel, complete equipment, a strict organization, and advanced management, and which had produced fairly good economic and social returns for a number of years, making it an advanced enterprise in the city. In July 1988, it took over the Luohu Petroleum Gas Company, which had lost money year after year and which did not have enough capital to offset its debts, thereby providing a way from which lessons can be learned in straightening out money losing enterprises. Third was planned, step-by-step promotion of a transformation of the shareholding system in state-owned enterprises. Founding of a municipal investment control company, and separate channeling of profits and taxes from state-owned enterprises formed the basis for the municipal government's assignment of chairmen of the board to six state-owned enterprises including the Saige Group Company and the Construction Group Company at the end of 1987. On 25 April 1988, it also promulgated "Temporary Regulations For Board of Directors Work in Shenzhen City State-owned Enterprises," and "Temporary Regulations For Directors' and Plant Managers' Work in Shenzhen City State-Owned Enterprises" in the launching of a pilot project for transformation of the enterprise shareholder system.

Today, there are more than 200 shareholding enterprises in Shenzhen that are either converted state-owned enterprises or newly founded enterprises. These reform measures did a fairly good job of separating government and enterprise management, of separating enterprise property ownership rights from operating rights, and of strengthening enterprises' abilities to develop and limit themselves.

Further Removal of Restraints From Means of Production Markets. Since March 1988, Shenzhen has opened five means of production markets for electronic components and parts, farming and animal husbandry products, electromechanical equipment, construction materials, and metal materials. It has set up permanent exhibition and marketing sites where both Chinese and foreign traders have set up booths for direct sales, and where consignment sales may also be transacted. The electronic components markets, which were the first to be freed from restrictions, now have more than 120 booth sites. The three large electromechanical, construction, and metal materials markets that were opened at the end of August display more than 1,000 different products in more than 30 major categories made by more than 100 Chinese and foreign enterprises. This is the opening of a new channel whereby Chinese customers may buy products from abroad, and whereby Chinese-produced merchandise can enter international markets.

Reform of the Land Control System. On 3 January 1989, the Standing Committee of the Guangdong Provincial People's Congress published "Land Control Regulations for the Shenzhen Special Economic Zone," which establish the principle of a separation between SEZ land ownership and land use rights, provide that land is to be centrally administered by the municipal government, that agreements, calling for tenders, and public auctions are to be used in the selling of use rights to state-owned land, that land may be transferred for compensation, and for the opening of real estate markets. This creates, for the first time, land rent markets in China in which the key point is that land use rights may be transferred for compensation. As of mid-November 1988, the municipal government had sold 42 parcels of land, 35 of them totaling 316,000 square meters in area through agreements, four parcels having an area of 77,000 square meters by calling for tenders, and three parcels having an area of 17,000 square meters by public auction. It collected a total of 130,460,000 renminbi and \$9.78 million from the sales.

Reform of the Housing System. The housing system in the SEZ was originally the same as in inland China, the state being totally responsible for construction of housing provided at low rent. On 10 June, the municipal government announced a housing system reform plan of "subsidized rent increases, transfers of houses for cash, encouraging the purchase of houses, and two track supply and demand." This plan embodied the line of thinking of "reaching a goal in a single step (rent payments

approaching costs), and working to transfer ownership," the bottom line in reform being to encourage staff members and workers to buy houses. This required that house rents be increased to a point approaching costs, payments for rent, depreciation, management, maintenance, interest and taxes averaging 2.06 yuan per square meter per month. The biggest feature of this rental plan was that it made staff members and workers feel it would be cheaper buy a house than to rent a house. This would mean a decrease in the net burden on the state and businesses in providing housing subsidies for staff members and workers. It is estimated that if all old and new houses are sold under this plan, the government and businesses will see an annual net decrease in their burden of 190 million yuan each year as compared with the period before reform. If 70 percent are sold, the net burden decrease will be 130 million yuan.

AGRICULTURE

Long-Range Rural Development Goals Discussed
40060225A Beijing JINGJI CANKAO in Chinese
3 Jan 89 p 2

[Article by Xiao Jiabao 5618 1367 0202: "Potential and Policies for China's Long-term Rural Development—Summary of Chinese Academy of Sciences' National Conditions Analytical Study Group Report"]

[Text] In its report titled, "Survival and Development—A Systematic Study of Several Problems in China's Long-Term Rural Development," the study group conducted a historical survey of changes in China's population, cultivated land, and food production; made a forecast about the potential and possibilities for long-term rural development; and proposed policies and measures for dealing with the country's long-term rural development. The group said that these measures are simply one of many lines of thinking, and that further verification and study is necessary.

From "Two Legs" to "One Leg"

Professor Fojinsi [3789 6855 2448] of Harvard University has pointed out that China's agriculture supports one-fourth of the world's population on 7 percent of the earth's land. China's crop growing area is only 70 percent that of the United States; however, it must support a population that is between three and four times again as large as America's. So, how does China increase its grain yields in order to supply its steadily growing population? He discovered that from the beginning of the 15th century to the middle of the 20th century, China's population increased between seven- and nine-fold, while per capita grain consumption either remained unchanged or increased slightly. During that period, the total amount of cultivated land in China increased four-fold. The main way in which gross output of grain increased was by walking on the two legs of increasing the cultivated land area and raising yields per unit of area, each contributing approximately 50 percent of the

increase. Study group experts discovered that since the middle of the present century, increases in the country's gross output of grain has changed to a single leg, which is to say that it relies only on a rise in yields, and that it also has to make up for a negative contribution (of almost 20 percent) resulting from a contraction of the cultivated land area or the area sown to crops, the contribution made through increased yields increasing to 119 percent. We understand clearly that given the inertial movement of future steady population increase, as well as the scarcely avoidable trend toward steady decline in the amount of cultivated land, the main road open to us for increasing grain output is only an increase in yields in order to satisfy the steadily growing needs of more than 1 billion people. The question is whether a single leg will be able to support such a heavy burden.

Historically, China's grain yields have risen steadily. During the middle and late Warring States Period, grain yields were 108 kilograms per mu; at the end of the Western Han Dynasty, yields increased to 132 kilograms per mu; in the Tang Dynasty, they reached 167 kilograms; and during the middle of the Qing Dynasty, they reached 183 kilograms. In 1982, they broke the 200 kilogram mark for the first time; and in 1984, yields were 241 kilograms per mu, an all-time high. This was the both the highest yield for China's traditional agriculture, and vastly higher than the current world average yield. In order to maintain grain yields at between 375 and 400 kilograms per capita, it will be necessary around the year 2000 for the national yield to leap two steps, namely a yield of 250 kilograms per mu, and a yield of 300 kilograms per mu. "The Report" said that China's yields per mu of cultivated land must be three times again as great as the world average if this goal is to be realized.

The painful thing is that despite such straitened circumstances, the very best of the country's good earth, its arable land, is disappearing at a rate of several million mu each year. Statistics show a 25.27 million mu decrease in the country's cultivated land between 1978 and 1985, an average decrease of 3.61 million mu per year. As a result of the decrease in the amount of cultivated land, the multiple cropping index declined, and the area sown to farm crops fell by 97.17 million mu, an average 13.35 million mu per year decrease. When the percentage increase in the cash crop growing area is added to this, the grain growing area decreased by 176.13 million mu, or an average 25.16 million mu per year. At this rate, the grain growing area will be less than 1 mu per capita in the year 2000. This will require a nationwide yield increase to more than 400 kilograms per mu in order to maintain the amount of grain at 400 kilograms per capita. This means that yields per unit of area will have to be greater than the highest yields in the world today (between 375 and 400 kilograms per mu). If the decrease in the grain growing area can be controlled at 10 million mu per year through the adoption of rigorous measures, by the year 2000 yields will still have to reach 350 kilograms per mu; otherwise 400 kilograms of grain per capita will be impossible by the end of this century.

Clearly, the predicament for China's population is essentially a grain crisis, and the grain crisis is a direct reflection of the cultivated land crisis.

Potential for Long-Term Rural Development

1. Potential of natural agricultural resources. (1) It is the 2 billion mu of cultivated land that is the cream of the country's land resources, and cherishing and protecting this cultivated land has ever been an extremely important national policy. (2) The potential for agricultural production in China is greater in the east than in the west, and emphasis on grain production should be placed on the eight provinces of Hunan, Hubei, Jiangxi, Anhui, Henan, Heilongjiang, Jilin, and Jiangsu. It is estimated that by 2000, these provinces will account for more than 40 percent of the country's total grain output; thus, these eight provinces will have a fairly great effect on the grain equilibrium of the whole country. (3) The greatest potential for increasing yields from farming lies in fields producing intermediate yields. Today, more than half the total cultivated land in the country is made up of intermediate producing fields, including approximately 20 million mu of prime land from which yields have not yet reached a proper level. With increased investment and improved management, these fields can be transformed into high yield fields. (4) Comparative analysis of the amount of resources per capita and output per capita shows that the production capacity of the country's key grain producing counties can be further improved. (5) The country still has potential for the opening up of new livestock fodder bases. (6) Mountain regions should become key areas for the building of forestry. (7) An agricultural production system that conserves water can be built. (8) Full use can be made of the country's advantages in light and heat resources for the development of intensive agriculture in order to moderate the ever increasing shortage of cultivated land. Calculations show that every 1 percentage point increase in the multiple cropping index is equal to a between 15 to 20 million mu increase in the crop area. If a multiple cropping system that employs intercropping and companion cropping is employed to increase the multiple cropping index from the present 147 percent to 155 percent by the year 2000, and to 160 percent by 2025, that would be equal to a 120 million mu and a 190 million mu increase in the area sown, an impressive figure.

2. Potential of the rural workforce. The country's abundant workforce and a severe shortage of resources are basic national circumstances affecting long-term economic development. These circumstances mean that, for a substantial period of time, we will have to vigorously develop labor-intensive industries, doing all possible to make use of our advantage in having relative low cost labor, labor substituting for capital and land resources. This will require: (1) integrated development of rural farming, forestry, animal husbandry, and fisheries, using the country's advantages in farming to develop cash crops. (2) The large scale mobilization and concentration

of rural workforces should be maintained for large scale building of water conservancy, the transformation of mountains and hillsides, the building of roads, and afforestation. Of course, this will require a policy for providing "national investment, with compensation being paid for the requisitioning of labor." (3) Vigorous development of non-agricultural industry, particularly businesses, service trades, and the construction industry, when little transfer of funds is required, and when labor can be easily applied. (4) Employment of more of the population by expanding rural commodity circulation and services, and building transportation facilities. (5) Opening up and building labor markets, breaking down barriers between city and countryside, and between one area and another, using buyers markets in which the labor supply exceeds demand to maintain a relatively long-range, relatively inexpensive labor cost setup. This would also help competitiveness in international markets. (6) Establishment and perfection of an unemployment support system.

Additionally, the report emphasized that investment in manpower resources (investing in education, and particularly investment in the peasants, and investment in scientific and technical research and in intellectuals) is a basic national policy of extremely far-reaching significance for China's long-term economic development.

3. Agricultural investment potential. This includes primarily the investment of capital and the investment of materials. The main problem today is the serious disjunction between the low investment in agricultural production and the high goals for agricultural development. The report stressed that low input inevitably means low output. The study group recommended that for the near future, investment in the capital construction of agriculture should rise to where it accounts for 10 percent of investment in capital construction nationwide (5.1 percent for the Sixth 5-Year Plan period), and should increase to 15 and 20 percent respectively during the Eighth and Ninth 5-Year Plans. Additionally, rural collectives and peasants will also have to increase investment in agriculture. In 1986, investment in agricultural production by collectives was 8 percent of investment from all sources, and peasant investment in production was 27 percent of investment from all sources; moreover, most of it was used in non-agricultural production.

4. Potential of agricultural science and technology. It is scientific and technical progress that offers hope for breaking the impasse between population and resources; however, only between 30 and 40 percent of the country's scientific and technical achievements are currently being translated into production. Were this to be increased to 50 or 60 percent or more, that would have an inestimably far-reaching effect on the development of agricultural production. Our emphasis during this century should be placed on improving irrigation techniques, on rational use of chemical fertilizer, and on the promotion of fine varieties of crops. Over the long-term, the potential that biotechnology provides offers hope for the future development of agriculture.

In summary, the report maintains the various resources (including material resources and manpower resources) that underpin the country's long-term development of agriculture still hold potential and offer hope; however, potential productivity has to be translated into actual productivity, and the amount of substitution of one kind of resource for another is also limited. Only through increased investment of funds, technology, and education, in combination with markets can the potential of resources be more than just potential.

Getting out of this predicament and crisis, and creating a fine environment for long-term, sustained, and consistent growth of agriculture will require the building of a long-term, consistent, and fully integrated rural policy system. On this point, the report made the following recommendations:

1. Grain Policy. Grain production will have to remain the focus of agricultural production. Grain will have to remain the key link in the structure of the farming industry, livestock fodder and cash crops being ancillary. Government can consider various measures for providing help, including administrative ones, and it can intervene in the kinds of crops that peasants plant in order to insure a sufficiently large grain growing area. At the same time, it can provide the peasants with various kinds of support. It can further clarify land production rights relationships. In developed areas, the emphasis should be on areas around cities, and all large commodity grain bases. Opportunities should not be missed to promote farming of the land on a suitably large scale. Consideration may be given to institution of a fixed quantity distribution system for a fairly long period of time as a means of supplying grain, meat, edible oil, and sugar to city and town residents. Consideration may be given as well to a gradual readjustment of grain prices to reduce the burden on public funds. So long as there is substantial self-sufficiency in grain, the amount of grain imports may be appropriately increased, etc.

2. Population Policies. The basic policy is "strict control over population size, vigorous improvement of population quality, and gradual readjustment of the population structure." For some time to come, there must be unwavering continuation of diligent implementation of a child-bearing policy that "vigorously advocates a single pregnancy, strictly controls two pregnancies, and firmly stops three pregnancies."

3. Environmental Protection Policy. As quickly as possible, the government should get out of the business of both regulating production and regulating environmental protection, devoting full efforts to shouldering responsibility for protecting the environment. Environmental protection should be made a key element in the appraisal of the achievements of government leaders at all levels, and results should be made public. Industrial plant use and discharge of toxic and harmful substances should be publicized, and products should carry labels showing harmful ingredients they contain, as well as how

dangerous they are, in order to increase public awareness and increase everyone's consciousness of environmental protection. Both the location and production of township enterprises should be correctly guided, and every contract system should include environmental protection requirements and criteria for checking compliance. Efforts should be made to reverse the trend toward deterioration and pollution of the soil. Emergency plans should be quickly drawn up to deal with various suddenly occurring situations and pernicious outbreaks of chronic pollution. Special funds should be provided for scientific research on ways to remake pollutants into useful resources.

4. Resources utilization and protection policies. Reduced expenditure should be paramount, and reasonable broadening of sources ancillary. Economic levers should be used to regulate the actions of both enterprises and peasant households so that they consciously improve resources repeat utilization rates and multiple utilization rates. A resources evaluation system that makes solution to water and soil problems a strategic emphasis in the development of resources should be established. Resolute actions must be taken quickly to halt or decrease the trend toward decline in the amount of agricultural land. A change must be made from no compensation to compensation for the use of water and soil in the adoption of an industrial and agricultural production system that conserves water. Vigorous efforts should be made to develop agricultural ecology projects that use materials and energy at several different levels. Everything should be done to make full use of foreign resources, efforts being made to import more products of a resource nature that the country urgently needs and that are relatively lacking so as to reduce pressure on domestic resources.

Gansu Grain Storage

40060330d Lanzhou GANSU RIBAO in Chinese
5 Jan 89 p 1

[Summary] By the end of December, Gansu Province had put 722,910,000 kilograms of contracted grain in storage, fulfilling 97.82 percent of the annual task.

Guangxi Readjusts Sugar Market

40060242a Beijing JINGJI CANKAO
in Chinese 3 Jan 89 p 1

[Dispatch from Nanning by correspondent Zhong Ruilin 6988 3843 2651: "On the Adoption of Four Measures, Large New Supplies of Sugar Delivered Into Storage—Readjustment of Guangxi Sugar Market Highly Effective"]

[Text] Recently, the people's government of the Guangxi Zhuang Autonomous Region adopted measures for unified control of sugar procurement and distribution directly under its own control and achieved on the economic and social results in restoring market order and improving macro-control.

Guangxi is China's main sugar producing area. After satisfying all local demand, several tens of thousands of tons of its sugar production have been turned over to the state every year for supply throughout the country. Following the sharpening disparity between sugar supply and demand in China in recent years, units engaging in the sugar business have multiplied. Without authority, they have shifted from "parity prices" to "market-adjusted prices" to gain illegal profits. Some have engaged in speculative buying and selling and some have arbitrarily driven up prices with the result that one ton of first grade sugar with an ex-factory price of 1,650 yuan was sold in the retail market for 2,300 yuan. They had indeed upset the market and done harm to the interests of the general public.

On earnest study of the situation, the people's government of the autonomous region took the restoration of order in the sugar market firmly in hand as one of the important aspects of regulating the economic environment, and after repeated studies, issued a circular notice throughout the region on tightening the control of sugar procurement and distribution, adopting the following measures for stepped-up macro-adjustment and macro-control:

All sugar procurement and marketing from and by sugar mills within the autonomous region is placed under the unified control of the commercial department of the autonomous region. Procurement, marketing, transfer, storage, and other business involving sugar shall be carried out by the Nonstaple Foodstuffs Company of the autonomous region and by the sugar, tobacco, and wine trading companies in the various prefectures, municipalities, and counties. The commercial departments in counties and lower ranking localities may entrust retail business to supply and marketing cooperatives as agents. Without approval from the people's government of the autonomous region, no other department, unit, or individual may engage in this business.

Stepped-up control over sugar procurement and ensuring fulfillment of the state's sugar procurement plan. During the season of cane crushing at the sugar mills, the commercial departments will station personnel at the sugar mills, to check operations at all times, to familiarize themselves with the progress of production, and to do a good job of procurement.

Restoring order in the sugar market, putting an end to illegal business operations. Contracts for buying and marketing of sugar concluded between unauthorized units or individuals and production enterprises shall be void. Cases of wholesale buying up of sugar for purposes of profiteering, of driving up prices, disturbing the market, and other such speculative and illegal actions shall be investigated and appropriately dealt with by the departments in administrative charge of industry and commerce.

Adjustment of the ratio between the amount of sugar to be procured by the state and the proportion that may be retained by the mills. Starting with the cane crushing

season of 1988/89, apart from enterprises authorized by the people's government to do otherwise, the amount of production to be turned over by sugar mills to the autonomous government is reduced from the original 90 percent to 85 percent of the actual production, which latter amount shall be unifiedly purchased by the commercial departments. The remaining 15 percent shall be left in control of the various prefecture, municipality, and county governments and the sugar mills. Sugar mills of the agricultural development or overseas Chinese systems shall be controlled by the departments in charge of these systems. The difference of price obtained by selling "retained" sugar by the various localities above the state plan prices shall be turned over to the local financial administrations, to be used for the development of sugar production.

Since adoption of these measures by the autonomous region, local purchasing and marketing of sugar has become normalized. At present, the cane crushing season of 1988/89 has already begun in Guangxi, and the more than 80 sugar mills under obligation to turn over sugar, are indeed turning over sugar to the state according to plan, and large amounts of sugar are being delivered in a steady stream for storage and shipment.

Heilongjiang Rural Savings

40060330a Beijing JINGJI CANKAO in Chinese
31 Jan 89 p 2

[Summary] By the end of December, rural savings in agricultural banks and credit cooperatives in Heilongjiang Province totaled 5 billion yuan, an increase of 1.1 billion yuan over 1987.

Heilongjiang Spark Plan Investment

40060330c Harbin HEILONGJIANG RIBAO
in Chinese 23 Jan 89 p 1

[Summary] In 1988 Heilongjiang Province invested 47,130,000 yuan in 56 spark plan projects.

Heilongjiang Increases Food Exports

40060330e Harbin HEILONGJIANG RIBAO
in Chinese 23 Jan 89 p 1

[Summary] In 1988 the Heilongjiang Grain and Edible Oil Import and Export Corporation earned \$389 million in foreign exchange from exports, a 24 percent increase

over 1987. In 1988 the Corporation began implementing the contract responsibility system; and the Corporation invested 8 million yuan in technical renovation of its enterprises. The Corporation has set up joint operations with four enterprises inside and three enterprises outside Heilongjiang. The Corporation has also set up joint operations with the Shenzhen Grain and Edible Oil Import and Export Corporation, they exported 2 million chickens to Hong Kong, which earned over \$1 million in foreign exchange, and the Heilongjiang Grain and Edible Oil Import and Export Corporation made 200,000 yuan in profits.

Hubei Agricultural Banks Support Fisheries

40060330b Beijing JINGJI CANKAO in Chinese
5 Feb 89 p 2

[Summary] In 1988 agricultural banks and credit cooperatives in Hubei Province provided 75,390,000 yuan in funds to support 50 state-run fish farms, 850 collective fish farms, and nearly 20,000 specialized fish-breeding households, and to develop 157,000 mu of breeding area.

Jiangsu Rural Savings

40060312d Nanjing XINHUA RIBAO in Chinese
15 Jan 89 p 1

[Summary] By the end of December, rural savings in Jiangsu Province totaled 12.369 billion yuan.

Jiangsu Tobacco Area

40060312e Nanjing XINHUA RIBAO 8 Jan 89 p 1

[Summary] In 1989 Jiangsu Province plans to sow 300,000 mu to tobacco, and estimated output is 30,000 to 35,000 tons, an increase of 300 percent over 1988. At present, the three cigarette plants in Jiangsu need 65,000 tons of tobacco a year, but over the past few years tobacco purchases in the province have been about 5,000 tons a year; most of the tobacco has been transferred in from other provinces.

Jilin Flue-Cured Tobacco Output

SK1302052289 Changchun Jilin Provincial Service
in Mandarin 2200 GMT 12 Feb 89

[Text] Our province reaped a bumper harvest of flue-cured tobacco in 1988. The purchase volume reached 455,000 dan, an all-time record and an increase of 68.8 percent over 1987.

Causes of Corruption Analyzed

40050133b Hong Kong TA KUNG PAO in Chinese
15 Nov 88 p 2

[Article by Lu Jiaguo 7627 1367 2654 and Chen Weihai 7115 3634 3352: "An Attempt To Analyze Honesty and Corruption on the Mainland"]

[Excerpts] [Passage omitted] Corruption under socialist systems has its own peculiar historical backdrops and causes.

1. It is generally believed that corruption in China is closely related to the fact that political and economic power in our country is excessively concentrated. The over-concentration of power during times of peace, coupled with a lack of any restraint, necessarily engenders all kinds of abuses. And when combined with a primitive market economy, over-concentrated, uncontrolled power has made corruption, which never used to be severe and rampant.

Since reform was initiated, the old system has not yet fully withdrawn from the stage of history, no fundamental change has been made in the high concentration of power, and government functions have not really been altered, so that most of the new freedoms that have accompanied the development of market economy have fallen into the hands of people who control various types of power, enabling them to use those powers, to exploit aberrant market relationships, and to collude with people both in and outside of government so as to pursue evil dealings and to extract exorbitant profits both in production and marketing. This "official profiteering" has grown out of the general corruption that has been fostered by over-concentration of power under the new economic conditions.

2. The development of market economy has not been accompanied by the creation of an appropriate new socialist market-economic order, and this has given rise to a series of chaotic situations. First are the facts that many gaps, faults and loopholes exist at each link in the economy and that markets are plagued by disorder. There are in fact "double track systems" for prices, foreign exchange rates and interest rates—planned and non-planned distribution; official, negotiated and market prices; official and black market exchange rates; planned, floating and market interest rates; and so on. This state of affairs enables agencies that control funds, goods, and materials to exploit these prices, exchange rate and interest rate differentials, so as to engage in graft, speculation, and profiteering, thereby netting the fisherman's prize. Market disorder is also evidenced in the fact that invigoration has outpaced macroscopic control. Although circulation is now booming, corresponding reforms in price and market control systems have not been effected, which situation causes commodities to outstrip transport and economic links to burgeon. This provides yet additional opportunities for officials and nonofficials to collude in the use of power for selfish

ends. Second is the fact that government activity is chaotic. Even under the new economic conditions, the system of government ownership persists, and enterprise-government separation has not made much progress, a situation that has caused some economic-administration departments to serve both as distributors and as dealers of goods and materials, to function in the capacities of controllers of markets and of initiators of corporations that compete on markets, and to play the roles both of referee and contestant. This state of affairs has unleashed a flood of "official profiteering" and made it very easy for people to engage in such illegal acts as taking bribes and practicing extortion. Third are the facts that the new and old economic systems exist side by side and that market and planning forces often tend to clash. Add to these problems the fact that China has long suffered from supply shortages, and what you get is a strong tendency of economic activity to produce aberrant forms of competition. This type of competition does not focus on improving labor productivity and product quality and on cutting production costs but rather resorts to various underhanded measures and to pulling various strings to vie for projects, investment, loans, materials, and quotas—in a word, to obtain special treatment of one sort or another. With this kind of treatment, one is guaranteed of profits, even if products are poor in quality and overpriced. But special treatment does not fall like manna from heaven; it can only be won by throwing banquets, sending gifts, giving bribes, pulling strings, and going through back doors. Clearly, the existence of aberrant competition is yet another channel that breeds corruption. [passage omitted]

3. Democracy and the legal system have been slow to develop, so there is no mechanism with which to restrain power. This is another important cause of corruption. China is a socialist nation that effects democratic dictatorship by the people. Although her basic political system is fine, there are some serious shortcomings in specific aspects of her leadership system, organizational forms and work practices. These defects are evidenced principally in the over-concentration of power, severe bureaucratism, and persistent feudalistic practices.

4. Ideological causes. Major changes have occurred in people's thinking as market economy has developed.

To some people, everything from the past seems wrong and must be repudiated, including even correct moral and ethical concepts and many good traditions, such as the spirit of serving the people and of hard and plain living. Yet a new value system has not yet been established, and this leaves a big void that has been filled by all sorts of twisted ideas about market economy, including, for example, the old fad of "putting money above everything else." This money fetish, when combined with the Machiavellian view that power equals money, becomes a hotbed for corruption.

There is yet another major ideological root of corruption, and that is that China's culture and education remain very backward, and her people have a very poor

appreciation of the importance of the rule of law. Legal and behavioral norms appropriate to market economy have yet to be developed, and such notions of just rights, social fairness, and professional ethics are very alien, while ideological-political work, which we always used to rely on to instill proper attitudes and maintain healthy practices, has proved very weak, as it has fallen very, very far behind the times. Thus there are no spiritual and moral restraints to contain the insatiable desire for money and power that some people have; and once these desires are unleashed, there is no way to rein them in. [passage omitted]

Reform-Engendered 'Identity Crisis'

40050133c Hong Kong MING PAO in Chinese
29 Nov 88 p 33

[Article by Liu Yan 2692 1750: "Identity Crisis in Mainland Political Reform"]

[Text] The concept of identity crisis that is used in political science theory refers to the crisis in psychological orientation of individuals or groups regarding their political systems. The identity crisis in mainland political reform is manifested primarily in the following three areas.

The Crisis of National Identification

Restructuring and opening up have placed the mainland in the midst of global development. Through comparison and contrast, the people of the mainland have discovered that their culture, economy and even politics are backward, and this discovery has deeply bruised their national self-esteem. The Chinese people have always unshakably identified with the greatness of traditional Chinese culture, and their belief in the greatness of that culture never wavered even when they had their fill of setbacks and disasters over the last century. Even when revolution was championed, effort was made to revive the glory of existing culture. Confrontation with the modern world has made all Chinese feel that they are backward and that are burden with a historical "debt," which feelings are evidenced in their wait-and-see attitude toward rapid social change. Some people have come to feel embarrassed and anxious, clearly showing alienation toward the new political structure. And the doubts people have regarding the ability of the government (this is an objective form of pressure that is the result of history and reality) has exacerbated the national "identification crisis."

The Political Relationship Identity Crisis

Before reform was initiated, public ownership was effected throughout the nation, and under this system all citizens lived in a "safe" and "stable" collectivity. And given the way mainland politics were structured, all political roles were delineated in terms of leader-subordinate relationships. This system unavoidably clashes

with the requirements of modernization, in which citizens are supposed to have a strong concept of their roles as political actors and of the importance of political participation. These requirements have engendered two types of identity crises with respect to political relationships. First, the authority of traditional leaders is now challenged, and they find it hard to accept the political fact of life that, in reform, citizens have been transformed from passive objects who were to be selected into freely participating political actors. Second, although becoming political actors, citizens have found it difficult to get a purchase on their own self identity and to make good on their political rights. No one favors or trusts authority, but once it is gone people lose their sense of direction, do not know what to do and do not understand how to coexist with people in authority.

The Political Culture Identity Crisis

All political identification crises may be said to be those of political culture. This latter concept refers only to the ideological crises of identification with political ideals, thought and concepts. China's traditional political culture, namely "Confucianism," failed to enable China to develop economically or to effect political rejuvenation. And Marxism, though a scientific methodology, has failed to provide ready-made solutions to China's social contradictions. Thus a serious rootlessness has arisen in people's thinking, a crisis of faith. At the same time, China has been buffeted by a tidal wave and a hopelessly jumbled mix of values and ideas from Western society. Faced with a complex, disorderly political and cultural environment, people have either turned back to the past and championed revival of its glory or recognized the superiority of the Western system of political culture. The former champion the spirit of "the dragon," the latter advocate pure, abstract "democracy and freedom." Clearly, contemporary China is in urgent need of a new national political-culture synthesis that contains both scientific thought and modern spirit.

This writer believes the mainland's economic, political and cultural development goals can be achieved only when there is a full understanding of the crises of identity that are bound to occur in China's political restructuring effort.

Problems, Anxieties of Doctoral Candidates

40050133a Beijing GUANGMING RIBAO in Chinese
21 Nov 88 p 2

[Article by Sheng Yiping 4141 0001 1627: "Doctoral Students' Hardships and Anxieties"]

[Text] This reporter recently conducted long talks with doctoral students at Zhongshan University and learned of their hardships and anxieties. These problems are not limited to a particular individual but rather involve the issues of education and employment of skilled personnel and require examination.

In the cafeteria, it is they who eat most sparingly.

"Master, give me 4 liang of rice and two orders of vegetables." This is the menu of at least one meal almost every day for most doctoral students.

Their stipends average about 100 yuan a month, yet the official standard lists meal expenses at 80-90 yuan. And more than 60 percent of the 71 doctoral students at Zhongshan University have dependents to provide for.

One student told me that in the 2-plus years he had been studying in Guangzhou he had not bought a single article of clothing in the city's bustling markets. This kind of situation is by no means exceptional.

"Overly fatigued and poorly nourished" is a diagnosis that is beginning to appear on doctoral students' medical records.

With their studies so heavy, it is very difficult for the students to go out and make a few bucks amidst the craze for "money making."

Over the last 2 years, three doctoral students left the university for financial reasons.

And yet it is doctoral students who have the most to worry about in obtaining job assignments.

If after 3 additional years of privation, they were to obtain a good working environment where they could continue the research they now pursue, or if society were to welcome them with open arms, their present suffering and sacrifice would be tolerable.

Yet in the last several years, it has been graduates of secondary or higher technical schools, followed by college graduates, who have been the most sought after, whereas even masters degree holders are encountering difficulties landing jobs, and PhDs are simply unwanted and are becoming a knotty social problem.

One 40-plus PhD comrade who had tested into the doctoral program from a college lectureship became so distraught after being rebuffed four times in his job search this year that a patch of gray appeared in his hair. He finally managed to return to teaching only after the State Education Commission intervened on his behalf and promised, after lengthy negotiations, to grant the unit hiring him an additional assistant professorship.

"Everything else is on the rise but the status of degrees and learning, which are falling," said a doctoral student in Chinese. Owing to his excellent performance in both moral character and scholarship, this student, while a junior at Xiamen University, had been urged by the leader of his department to stay on as a lecturer after graduation. Eager for learning, however, he chose to enroll in the masters program at Nanjing University, instead. At the time, Xiamen University still indicated it

wanted him to come back after he finished his masters work. But once he entered the doctoral program at Zhongshan University, the interest dried up. This year he applied to four units for employment, listing 10 different courses that he could teach, and raising no extra demands of his potential employers. Yet two of the units answered that, though interested, they could not hire him, and the other two did not even reply. Now he is full of anxiety about his ability to line up a position for next year. Studying is difficult enough, but he and his wife are well into their 30s, and she is expecting a child next year. So he cannot even bear to imagine what might happen if he cannot land a job by then.

Perplexed and confused, doctoral students find themselves losing their mental stability. On the individual level, they are apprehensive about their current status, their futures and their fates. On the level of society as a whole, they wonder if the nation has slipped into short-term behavior and the search for immediate gains. If everything has become so coldly practical, science and technology will have to guarantee immediate results before they are accepted. No wonder that college has lost its attractiveness and that undergraduates are unwilling to go on and chase masters and doctorate degrees. To use a popular phrase, "You have to be a bit of a turkey to go for a PhD."

"The plan for a century is rooted in education" and "the key to achieving economic takeoff lies in improving the educational levels of the entire people." Everyone understands these truths and does not doubt them. How, then, did this "PhD phenomenon"—where students study hard amidst difficulty, confusion and anxiety and yet are rebuffed by society—come about? During my interviews, I heard a variety of explanations, the most important of which are as follows.

First, the stipends for doctoral students used to be pretty good, and even in developed Western countries such stipends tend to be little lower than the salaries of most workers. It is just that the high rate of inflation in China over the last 2 years has caused students' cost of living expenditures to rise sharply.

Second, China's market economy is at a preliminary stage of development, needs large amounts of applied technology and practical skills, and for a while cannot provide PhDs with opportunities to put their skills to good use.

Third, the structural problems. The units that can really use PhDs—research institutes and institutions of higher learning—are fully staffed. The saturation of staffing, however, is true only in terms of the number of people the units can employ; it is not the case that the units are not in need of skilled personnel.

Fourth, when they finally receive their degrees, most PhDs are usually in their 30s, and most have families to provide for and have to think about housing, job classifications, obtaining new job assignments for their wives, and finding a place for their children to go to school. These concerns scare off some potential employers.

Fifth, prejudices in the community. Many people think that PhDs are supposed to know everything. It is considered no big deal if a PhD solves every sort of a problem placed before him. But if he ever frankly admits that he is stumped, the word quickly goes out that he is not worth a plug nickel: "Hah! The big PhD is a fraud—not even as good as a college grad!"

Sixth, problems relating to doctoral advisers. The practice of recruiting doctoral students on the basis of adviser

availability attracts students into fields for which there is not much demand in society. Advisers with excellent reputations attract students year after year, but new disciplines in which there is urgent social need for skilled personnel cannot recruit students because they lack "qualified" advisers.

A responsible member of the Office of Student Affairs of the Zhongshan University Graduate School emotionally told me that, whatever people say to the contrary, PhDs are the cream of the country and the pillars of China's national development, and their hardships and anxieties stem largely from problems in society as a whole. Thus he appeals to the entire community to help the PhDs resolve their difficulties and relieve their anxieties.

CENTRAL-SOUTH REGION

Guangzhou Party, Government Open Up to Public
40050149 Beijing LIAOWANG [OUTLOOK] in Chinese
No 46, 14 Nov 88 p 16

[Article by Yang Chunnan 2799 2504 0509 and Huang Youwen 7806 0645 2429: "Guangzhou: Party and Government Organizations Break Out of Their State of Confinement"]

[Text] A girl with the surname of Xiao [5135] was overjoyed when she got an individual business permit for cooking from the Yuexiu District Industry and Commerce Bureau in Guangzhou City. She said: "I didn't really expect to get in only 8 days a permit to start a business!"

Several months ago, it usually took several months for an individual businessman to get a permit to start the same kind of business. Sometimes he would have to come up with a little "benefit" to get through the "barricade" set up by the working personnel.

It was really not fortuitous that Xiao got her business permit without a hitch. She is one of the countless number of beneficiaries from the "system of conducting affairs openly" that has been put into practice in Guangzhou City.

A popular saying circulating in China is "the people standing in front of the yamen gate are packed as deeply as drops of water in the sea." This saying describes the closed and feudal nature of the feudal-bureaucrat organization of old China. In the eighties this image has not yet been stamped out in the party and government organizations of China. The common people say that there are now four difficulties in the way these organizations conduct affairs, namely, "it is difficult to get into them, it is difficult to see a human face, it is difficult to hear what someone says, and it is difficult to get things done."

The closed state of the party and government organizations is not the only cause of the "four difficulties." They are also caused by the fact that in some organizations the phenomenon of bureaucratism is serious, and an important part of this phenomenon is the malfeasance and corruption of some persons in public office.

On 11 June of this year, the Standing Committee of the Guangzhou City CPC Committee held a meeting at which it made the important policy decision to select a number of basic-level units that have direct relations with the masses of people to try out the system of conducting affairs openly.

The first experimental points were set up in the Yuexiu District of Guangzhou City, and they quickly evoked strong repercussions in society. Then Guangzhou City in

81 basic-level law-enforcement departments, administrative and management departments, and public utility units in more than 10 systems, including the Industry and Commerce Bureau, the Finance Bureau, the Housing Management Bureau, and the Public Security Bureau, popularized the system of conducting affairs openly. On 17 October the Guangzhou City CPC Committee made the decision to popularize the experience of Yuexiu District and other experimental-point units and to put into practice citywide the system of conducting affairs openly.

It took only a little over 3 months' time to set up the experimental points and implement comprehensively this system. People have discovered that striking changes have occurred in the government organizations that have put this system into practice:

—The masses now exercise supervision over office workers who are supposed to execute the laws but instead break them or who use the power of their office to seek private gain. In the past the government departments laid down rules and regulations to correct unhealthy tendencies and to fight graft and bribe taking. But because most of these rules and regulations were not made public to the masses, the people did not know exactly what disciplinary restrictions the personnel in public offices were put under. Sometimes they saw some people doing incorrect things, but they did not know on what basis to rely on in exercising supervision. After affairs began to be conducted openly, the masses became aware of how affairs should be conducted and who they should seek out to get things done. Whoever does things that are not in line with the system and the regulations could be the subject of an inquiry according to the rules, could be argued with vigorously on the basis of sound reason or justice, and could be the subject of an accusation and notification. The Finance Bureau in Yuexiu District has been putting this system into practice for less than a month, but in that period of time it has received reports from the masses 7 times by telephone, 5 times by letter, and 11 times in person. These reports have unmasked problems in which some special management personnel used taxation to seek private gain and in which units evaded taxation.

—The number of administrative links have been reduced and administrative efficiency has been improved. In the past, because the rules, procedures, and formalities for work formulated by some departments were not sorted out and revised, there were many irrationalities in them. In the "closed" state no one inspected and no one supervised, thereby making it difficult to improve the administrative efficiency of the organizations. Many experimental-point units are now rechecking and revising their rules and regulations, so as to simplify some overelaborate reporting procedures and make clear, during the administrative process, the requirements at different times for each link. The Industry and Commerce Bureau of Yuexiu

District has clearly stipulated: Whoever exceeds the allotted time for conducting affairs and does not have a legitimate reason for doing so may be accused by the party concerned of dereliction of duty. Thus the phenomena in conducting affairs of being dilatory, disputing over trifles, and making excuses are avoided. As a result, a matter that in the past was handled in 2 or 3 months is now handled in 2 or 3 days. Moreover, because when the masses come to get something done they know in advance the working process, the procedures for examination and approval, and the specific person they will be dealing with, a great deal of unnecessary trouble will be cut out. A worker in a rolling stock plant in Guangzhou that is under the Ministry of Railways, after going to a grain office and completing the procedures to obtain grain, said happily: "I never expected that the matter would be handled so simply."

—Closer relations are being built between the cadres and the masses, which means that a bridge of trust and support is being built. In the party and government organizations, some people think that when the

masses come to get something done they "are making a plea to me" and "if I'm in a good mood I'll do it and if I'm not in a good mood I won't do it." They are neither warm nor respectful to the masses, and sometimes they put on a stern expression and curse and lecture the masses. This official-bureaucrat style is an obstacle to building closer relations between the party and government on the one hand and the masses of people on the other. The system of conducting affairs openly puts the state and public office personnel under the supervision of the masses and creates the conditions for them to participate in and discuss government and political affairs. With regard to some things that are closely related to the masses' personal interests, the experimental-point units lay them out frankly and welcome the masses' supervision. For example, making a residence, hiring workers, collecting taxes, issuing business permits, extending credit, and other things are made perfectly clear, and matters are handled conscientiously and meticulously. Many experimental-point units are actively changing their passive "sit back and wait service" to active, doorstep service.

Profile of New DPP Chairman

40050140 Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 194, 16 Nov 88 pp 40-41

[Article by Ch'en Wan-feng 7115 2519 2800: "The Future of Huang Hsin-chieh and the DPP"]

[Excerpts] [Passage omitted] Huang Hsin-chieh's [7806 0207 0094] political stratagems are both deep and simple. For many years he has poured money and effort without letup into the activities of the opposition forces in Taiwan. He likes to pose as the "dragon head" and "eldest one" and does not in the slightest "avoid mentioning the Emperor by name." In fact, if we look at the non-KMT personages in Taiwan now, except for Kao Yu-shu [7559 3768 2885] his political career has been the longest and his experience is the deepest.

Coming from a family well known in politics who lived in the Grand Dragon Cave area of Taipei City, Huang Hsin-chieh in his early years joined the KMT under the name of Huang Chin-lung [7806 6855 7893]. Later, to help get Li Fu-shun [2621 4395 2504] elected, he became a "nonactive party member" and went into business. After becoming a successful businessman, he began to help Kao Yu-shu, Sung Lin-k'ang [1345 7207 1660], and Kuo Kuo-chi [6753 0948 1015] get elected. When Kao Yu-shu was elected mayor of Taipei in 1954 and 1957, Huang Hsin-chieh was one of the "five brave generals," the others being Li Tz'u-ch'ing [2621 6357 0615], Ch'en I-sheng [7115 4135 0524], Chou Chih-jung [0719 2784 5816], and Sung Lin-k'ang. He was not miserly with his money. In his speeches to help get the others elected, his choice of words was coarse but his cordial air attracted audiences. [passage omitted]

At the end of 1960, in the elections to the Taipei City Fifth Assembly, Huang Hsin-chieh got the most votes in the third electoral district. Three years later he was re-elected. In the Assembly his role and his words and deeds made become, in the eyes of the KMT's secret service network, a "problem figure." At the beginning of 1961, Huang Hsin-chieh for the first time entered the Taiwan Assembly. Powerfully and without constraint he attacked the privileged figures of the KMT who controlled Taiwan for "getting elected by buying votes." Infuriated, the assemblymen united in criticism of him. In 1957, when firearms were not completely controlled, to get a pistol permit that had not yet been sent to him he brought a gunsling into the Assembly. His behavior is straightforward, he talks fluently and endlessly, and he likes to make friends. But at a worshipping festival in April 1965, when urging some people to drink and stop squabbling he was "drilled." [passage omitted]

In the many years that he has led non-KMT movements he has not shed the odor of a secret society chieftain. As a result, some intellectuals in the opposition faction do not dare ask his advice. But he is really one of the small number of opposition party figures who is highly skillful in handling "rational concepts about management." In

1988 he was proud that he had made money on the stock market. For many years his family's Ch'hsin Chemical Industry and Hsinch'uan Industries have been consistently successful. When he ran the magazine MEILI TAO [BEAUTIFUL ISLAND], in addition to managing the magazine, he formed political organizations. In Taiwan now, at every election, there must be a swarm of "help-election companies." When Huang Hsin-chieh was elected to the City Assembly in 1963, "joint election campaign companies" were prepared and formed. [passage omitted]

Huang Hsin-chieh's elder brother Huang Xiaoying [7806 1420 5391] (Jinbiao [6855 2871]) is now the vice chairman of the Taiwan Compatriots Association in Zhejiang Province. His younger brother Huang Tianfu [7806 1131 4395] had a long discussion on the political situation with him on the mainland, and also once met Lin Liyun [2651 7786 7291] in Beijing.

Outsiders call Huang Hsin-chieh and his Beautiful Island group the ruling faction within the Democratic Progressive Party (DPP). But this is not to say that he and his group favor the reunification of the two sides of the strait; it is only to say that they oppose the emphasis on Taiwan's independence. Huang Hsin-chieh thinks that there must first be a striving for the democratization of Taiwan, and only after that is achieved can the question of recognition and reunification be discussed, because only if there is true democracy on Taiwan will "self-determination" be of universal, true significance. At every turn he opposes the call for Taiwan's independence. He thinks that this call creates tension, makes enemies on all sides, and will lead to armed intervention by the Chinese communists and the blockade of Taiwan. Therefore, he reckons, if Taiwan is to be independent in the future it must take a realistic course now. In addition, he favors contacts with the mainland and more mutual understanding.

It is impossible to find a fixed position in his words and deeds over the many years of his resistance to the KMT. He had advocated that the hostility between the DPP and the KMT be toned down, and he even thinks that the tense atmosphere over the Taiwan Strait be lowered, positions that cause the radicals in the DPP to fly into a rage. But he has his own logic. He criticizes both the KMT and the DPP, and he even infuriates the advocates of Taiwan's independence. However, within the DPP, the composition of which is complex, he is keen-witted and capable, and he has not lost his image as a tough guy. On the contrary, many people are willing to let him shoulder even more burdens. When Yao Chia-wen [1202 0857 2429] was defeated in an election contest, he declared his support for Huang Hsin-chieh and cooperated with him. Other forces, like those of K'ang Ning-hsiang [1660 1380 4382] and Chu Kao-cheng [4281 7559 2973], have given Huang Hsin-chieh their support. But in the future, because of contentions over ideology and position and because of prejudice, a split with the DPP could occur at any time. [passage omitted]

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